

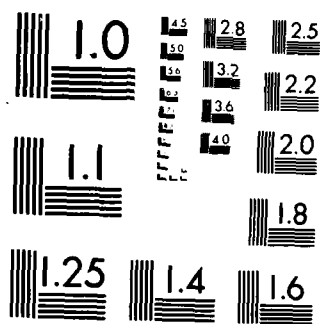
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DECISION MAKING IN THE NAVY BUDGET OFFICE

by

James D. Smart
and
Carl W. Schumaker

June 1986

Thesis Advisor: Jerry L. McCaffery

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Decision Making in the Navy Budget Office

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MASTER OF SCIENCE IN MANAGEMENT

from the

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ABSTRACT

The primary objective of this thesis is to familiarize the reader with the budget decision making processes and considerations which influence the formulation of the Department of the Navy's (DON) budget from the perspective of the Office of Budget and Reports (OBR), the impact of resource allocation (budgetary) decisions upon the overall framework within which DON budgetary decisions are made, the organizational structures of the Office of the Comptroller of the Navy (NAVCOMPT) and the Office of Budget and Reports (OBR) are outlined and their respective duties and responsibilities delineated.

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LIST OF ABBREVIATIONS

| | |
|----------------|--|
| ADP ----- | Automatic Data Processing |
| APH ----- | Aircraft Procurement, Navy |
| ASN (FM) ----- | Assistant Secretary of the Navy, Financial Management |
| CINC ----- | Commander in Chief |
| CMC ----- | Commandant of the Marine Corps |
| CNO ----- | Chief of Naval Operations |
| DLSIE ----- | Defense Logistics Studies Information Exchange |
| DOD ----- | Department of Defense |
| DON ----- | Department of the Navy |
| DOMPIC ----- | Department of the Navy, Program Information Center |
| FH, N/MC ----- | Family Housing, Navy and Marine Corps |
| FYDP ----- | Five Year Defense Plan |
| GAO ----- | General Accounting Office |
| GRH ----- | Gramm-Rudman-Hollings |
| HAC ----- | House Appropriations Committee |
| JMSNS ----- | Justification of Major System New Starts |
| MCIF ----- | Marine Corp Industrial Fund |
| MCR ----- | Military Construction, Navy |
| MCNR ----- | Military Construction, Navy Reserve |
| MCSF ----- | Marine Corp Stock Fund |
| MILPERS ----- | Military Personnel |
| NPMC ----- | Military Personnel, Marine Corps |
| MPN ----- | Military Personnel, Navy |
| NAVCOMPT ----- | Comptroller of the Navy |
| NBO ----- | Navy Budget Office |
| NCB ----- | Director of Budget and Reports |
| NCBG ----- | Budget Evaluation Group |
| NCB-1 ----- | Operations Division |
| NCB-2 ----- | Investment and Development Division |
| NCB-3 ----- | Financial Control Division |
| NCB-5 ----- | Budget and Management Policy and Procedures Division |
| NCB-6 ----- | Civilian Manpower Division |
| NIF ----- | Navy Industrial Fund |
| NSF ----- | Navy Stock Fund |
| PDH ----- | Program Decision Memorandum |
| PMC ----- | Procurement, Marine Corps |
| POH ----- | Program Objectives Memorandum |
| PPBS ----- | Planning, Programming and Budgeting System |
| ODR ----- | Office of Budget and Reports |
| OMB ----- | Office of Management and Budget |
| OMN ----- | Operations and Maintenance, Navy |
| OMAC ----- | Operations and Maintenance, Marine Corps |

| | |
|--------------|---|
| OMMCR ----- | Operations and Maintenance, Marine Corps Reserve |
| OMNR ----- | Operations and Maintenance, Navy Reserve |
| OPN ----- | Other Procurement, Navy |
| OP-92 ----- | Director of the Fiscal Management Division, Office of the Chief of Naval Operations |
| OR ----- | Operational Requirement |
| OSD ----- | Office of the Secretary of Defense |
| RDTE ----- | Research, Development, Test and Evaluation |
| RPMC ----- | Reserve Personnel, Marine Corp |
| RPN ----- | Reserve Personnel, Navy |
| SAC ----- | Senate Appropriations Committee |
| SCN ----- | Shipbuilding and Conversion, Navy |
| SECDEF ----- | Secretary of Defense |
| SECNAV ----- | Secretary of the Navy |
| WPN ----- | Weapons Procurement, Navy |

I. INTRODUCTION

This thesis is primarily concerned with the budget decision processes within the Department of the Navy (DON). Included will be an overview of the environmental framework within which the budgeting process is conducted, the functions which a budget performs and its characteristics, and a description of how budgeting fits into general decision making theory. The Department of the Navy (DON) budget process is guided by the Comptroller of the Navy (NAVCOMPT), Director of Budget and Reports (NCB) and the Director of the Fiscal Management Division, Office of the Chief of Naval Operations (OP-92). We will outline the internal and external organizational relationships of these units as well as the functions performed by these departments and the responsibilities assigned to their subunits. A general overview and more detailed investigation of the specifics of the budget decision making process are examined from the various departmental perspectives and coordination of these decision efforts will be discussed at length.

Certain methodology was used to gather the data, ideas and to report the procedures which we discuss in this thesis. To determine the requirements of this treatment, a bibliographic search was conducted using

available library resources. Defense Logistics Studies Information Exchange (DLSIE) and thesis advisors generated key points. Of particular note were the two main information sources of written data utilized within this thesis; the Budget Guidance Manual (NAVCOMPTINST 7102.2A) and the Comptroller of the Navy Manual. Additional supporting data was obtained from various other sources as per the bibliography.

To augment the literature review, a research field trip to Washington D.C. (Pentagon building), more specifically to the Office of Budget and Reports (OBR), was conducted in the month of February 1986. During this trip numerous budget division officials and their support budget analysts were interviewed. These interviews provide explanations of the linkage between the written policy requirements and the reality of the budget environment in which resource allocation decisions are made. Within the Pentagon itself, program information searches were made by hand as well as by computer. Success in these efforts was greatly enhanced by the exceptional cooperation of the Office of Budget and Reports (OBR) personnel.

Upon return from the field research trip, information collected was collated and interpreted. Follow-up telephone discussions and thesis advisor input was used periodically for purposes of standardization. The

organization of this thesis into five chapters was decided upon for ease of incorporation into the Naval Postgraduate School's Public Policy Processes Course (NN3172). Each chapter, with minor outside preparation, will be able to stand alone. Moreover the independent reader will be able to understand part of the Department of the Navy's (DON) budget decision making process as it occurs within the Pentagon.

II. BACKGROUND

This chapter outlines the following general budgetary and decision making topics: the role that budgeting plays in the overall management process, the different characteristics of a budget, the environment within which the budgeting process must be performed, the aids by which the complex problem of budgeting is simplified and the interrelationship between general decision making theory and the budgeting process.

The national defense effort has been predominantly viewed in terms of military strategy, tactics and hardware requirements and capabilities. However, increasing demands being made upon this nation's limited resources and the increased emphasis being placed upon reducing the amount of federal spending, as reflected by the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings), is changing the manner in which the national defense effort is being viewed. More so now, than ever before, the decisions pertaining to national defense are being viewed in an economic sense. Charles Hitch and Roland McKean place this concept into perspective by stating [Ref. 1:p. 29]:

The debate about the scale of the military effort will take place in terms of the budgets (and the

capabilities various budgets will buy), not in terms of commodities (and the weapons they can produce).

When viewed from an economic point of view, national defense can be considered to depend upon three factors [Ref. 1:p. 4]:

- the quantity of national resources available
- the proportion of national resources allocated to national security purposes
- the efficiency with which the resources allocated to national security purposes are utilized.

The first economic factor (the quantity of national resources available), which directly impacts the scale of the national defense effort, is a concern of the highest level of decision making in the resource allocation process. Decisions at this level are of primary concern to those parts of the government such as the Council of Joint Economic Advisers, the President, the Congress and the Joint Chiefs of Staff.

The second economic factor (the proportion of national resources allocated to national security purposes) exists at the next level in the resource allocation process. Decisions at this level are of primary concern to those elements of the government such as the Office of Management and Budget and the various Appropriations Committees of Congress.

The third economic factor (the efficiency with which the resources allocated to national security purposes are utilized) is of primary concern to those elements of the

government such as the Department of the Defense and subsequently the Department of the Navy.

The 'Budget of the United States Government', as submitted by the President and approved by Congress, of which the Department of Defense and Navy's budgets are a subset, is the principal instrument by which national resources are translated into specific courses of action. The degree of success by which the Budget achieves this purpose is dependent upon the influence of budgetary 'policy' upon the resource allocation (budgetary) process. Russell Moore describes the importance of 'policy' upon the decision making process in the following manner [Ref. 2:pp. 1-49]:

The principal task of policies is to give consistency of decisions while still allowing different decisions on different sets of facts to be made. Policies thus furnish the framework for plans. There is consequently a close relationship between policies and delegation of authority.

The word 'budget' has many different meanings and is interpreted differently by different people. The Department of the Navy Budget Guidance Manual (NAVCOMPTINST 7102.2A) defines a 'budget' as follows:

A budget is a document which expresses in financial terms a plan for accomplishing an organization's objectives during a specific period of time. It is an instrument of planning, decision making and management control. The budget is also an instrument of fiscal policy and a statement of national priorities.

One should, after examination in more detail of the above definition of a 'budget', quickly realize that the

primary purpose of a 'budget' is that of being a management and decision making tool and much more than a mere accounting tool by which to keep track of monetary distributions. If viewed from a management perspective, a 'budget' can be considered to possess certain characteristics. Aaron Wildavsky outlines the various 'budget' characteristics in the following terms [Ref. 3:pp. 2-4]:

- A budget is **intended behavior** because funds are approved and granted for specific reasons, spent in accordance with instructions and expected to achieve the purposes stated in the budget.
- A budget is a **contract** because Congress approves expenditures, purposed by the President, under specific conditions based upon a mutual understanding between the President and Congress.
- A budget is a **precedent** because programs which have been enacted are much more likely to be funded in the future.
- A budget represents **expectations** because departments predicate their requests upon certain expected events such as the expected enactment of a particular piece of legislation.
- A budget becomes a **plan** when it is coordinated to achieve predetermined goals or objectives.
- A budget is a **strategy** in that the level of funding granted to an agency is predicated upon the amount requested by an agency attempting to allocate funds in a manner which favorably enhances the budgetary goals of that agency.

The budgeting process should be viewed with the following environmental factors in mind:

- The participants in the budget decision making process are not always clearly defined.
- It is a mixture of technical and political influences.

- It is an inherently complex process.
- It occurs between parties whose relationship is a mixture of cooperative yet-conflicting interests.

The rules by which one is allowed to participate in a particular budget decision are not always clearly defined and understood. These participative rules are usually well established, but not always readily apparent to the casual observer. Michael Hobkirk describes these written and unwritten participative rules in the following manner [Ref. 4:p. 39]:

Participation in the decision making process does not occur at random. There are numerous written and unwritten rules governing how an issue may enter the system, who can become involved, who must be consulted, etc. The rules of the game are devices for ordering how minds are brought to bear on a problem. An unwritten code of ethics determines how a participant must relate to others in the bureaucracy. This code is constantly evolving through changes in the written rules, personnel and the general environment.

Budgeting is conducted in an arena which can best be described as a curious mixture of two dichotomous extremes. On one hand there is the purely objective (technical) viewpoint toward budgeting. The criteria utilized under this approach to budget decision making is simply to choose that alternative which makes the best economic or business sense. The rationale used in this approach is, basically, that, as long as the numbers are right in an economic sense, the proposed budget should go through (be approved). The other extreme toward budget decision making is much more subjective in nature. The

criteria used under this approach to budgeting is in terms of what kind of budget will be supported and approved by the superiors in the budget decision making chain of command. The rationale used in this viewpoint is that a budget which is right politically should go through (be approved). Aaron Wildavsky describes this curious budgeting arena in the following manner [Ref. 3:p. 143]:

Most practical budgeting may take place in a twilight zone between politics and efficiency.

The budgeting process is an inherently complex process. Within any large organization, particularly the federal government, there exists an enormously large number of items or programs, many of which possess great technical complexities. The complexity of budgeting is compounded by its taking place in a context in which time is typically short; there is never enough money; people disagree upon how to spend it, the consequences of budget decisions are not fully known and, while the budget decision makers have some latitude in their decision making alternatives, their actions are influenced by other people. In order to overcome this complexity, budget decision makers seek to simplify their problem by adopting any or all of the following techniques [Ref. 5:pp. 5-6]:

- heuristic aids to calculations
- incremental approach to budgeting

-the utilization of satisficing.

One method of reducing the burden of budgeting is for the decision maker to adopt heuristic aids to budget calculations. Decision makers make small budget changes, observe the impact of those changes, and allow feedback to determine the impact of their budget decisions. An example would be the implementation of across-the-board cuts and the simple reliance upon feedback from their constituency to inform the budgeteers of the consequences of such decisions.

Another method by which budget decision makers see to reduce the complexity of budgeting is to institute incremental budgeting. When utilizing an incremental approach to budgeting, budget decision makers do not review the budget as a whole. Under this concept the prospective budget is based upon the previous year's budget with major emphasis given to marginal decreases or increases. The budget decision maker can consequently concentrate his efforts upon a relatively narrow margin of the overall budget. Paramount to the concepts of incremental budgeting is stability in the base budget. It is stability which gives incremental budgeting application and usefulness in the budgeting arena. The rationale, upon which the base budget is predicated, is seldom questioned and, if changed, is not changed lightly. Agencies, under incremental budgeting, can

count upon receiving a level of funding similar to the amount they received the previous year. The amount which they expect to receive under incremental budgeting greatly outweighs the amount which is left open to debate and scrutiny.

Another method by which budgeteers attempt to reduce the complexity of the budgeting process is to 'satisfice'. Budget officials often do not try to maximize when making a budget decision but satisfice (satisfy and suffice). To reduce the complexity, budgeteers often reduce their goals or sights. They establish minimum levels of expectations for the proposed budget and when the budget meets this minimum desired level of performance, they cease seeking the optimal budget decision.

The budgeting process is conducted between parties whose relationship is a mixture of cooperative yet often conflicting interests. Central to this concept is the differing roles played in the budgeting process by the advocates (agency) and the guardians (budget review personnel) of the budget. The agency is expected to provide the guardians a choice of items from which budget reductions (cuts) may be made. The guardians are expected to provide the advocates budgetary limits within which to make budget decisions. Both roles are intertwined and dependent upon trust and confidence to succeed. Without trust, the communication between the

two parties breaks down, resulting in the agency either asking for too much (leaving money idle) or too little (requiring supplemental requests at a later time). Without trust, guardians impose stricter controls, which leads to the advocates engaging in deception, which in turn leads to even more increased controls by the guardians. Consequently, no one in the budgeting process can count on anyone. In this vicious cycle, everyone disregards the original budget.

As evidenced thus far, one important underlying theme pervading the discussion of budgets is that budgeting is principally a decision making process. Let us, for the moment, divert our attention from budgeting itself and concentrate our efforts upon gaining a better understanding of general decision making theory and how it relates to the budgetary process. Efraim Turban and Jack Meredith define 'decision making' as follows [Ref. 6:p. 4]:

Decision making is a process by which one chooses between two or more available alternative courses of action for the purpose of attaining a goal.

When comparing the definitions of a 'budget' and 'decision making', as previously given, it becomes obviously clear that the objective of each is to pursue a plan or a course among alternatives to achieve an organization's goals. Decision making is, thusly, an integral and inseparable part of the budgeting process.

Budgeting is, therefore, nothing more than a specialized type of decision making.

Decision making may be viewed from basically two perspectives:

- decision making under normal circumstances
- decision making under stress or crisis

Decision making under normal circumstances is compromised of the following steps:

- defining the problem
- searching for alternative courses of action
- evaluating the alternatives
- selecting one alternative
- implementation of the alternative
- evaluation (later) of the alternative.

When viewed in the context of budgeting, the steps to decision making under normal circumstances can be thought of in the following manner:

- Defining the problem, to the budgeteer, means obtaining an understanding of the relative importance of the various items in the budget to the other elements contained in the budget.
- Searching for alternative courses of action involves the formulation of different resource allocation proposals for consideration.
- Evaluating the alternatives means determining the advantages and disadvantages of each resource allocation proposal and their impact upon the other activities performed by the agency.
- Selecting an alternative implies an attempt to choose the 'best' course of action which, in budget terms, often means choosing that alternative with the least disadvantages.

- Implementation of the alternative means enacting the resource allocation proposal by promulgating it as part of the formal budget.
- Evaluating (later) the alternative requires the comparison of actual results or effects obtained by the chosen alternative against the desired or planned results.

The decision making process during the normal circumstances above yields the best results only when applied to a single situation or problem at a time. Under normal circumstances, if the decision maker encounters several problems, they should be viewed simply as a series of individual problems and solved by applying the steps outlined above in a sequential manner.

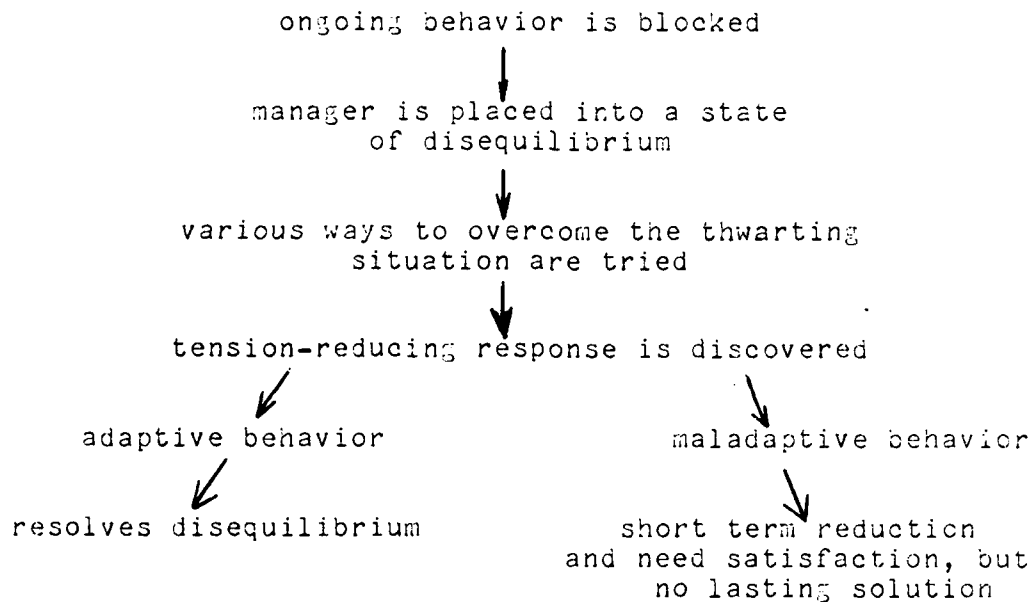
The steps to decision making under normal circumstances establishes the framework for understanding the decision making process. Much of the budgetary decision making, however, occurs during periods of stress, thereby making it incumbent upon the budgeteer to recognize and understand stress and its impact upon the budgetary process.

The negative impact of stress or crisis upon the decision making process is easily observed and evidenced by the following characteristics:

- outcome is uncertain
- simultaneous multiple problems
- changing goals or objectives
- change in organizational structure

- change in lines of communication
- short time constraints
- increased workload
- sense of anxiety, fear or panic.

The ultimate result of stress is that the decision maker is placed into an uncomfortable state of disequilibrium. Once placed in this situation the decision maker attempts to regain a natural state of equilibrium in which he is more comfortable. James Cribbin describes this adjustment process as follows [Ref. 7:pp. 204-205]:



As indicated above, the behavior which a decision maker could adopt in an effort to regain a state of equilibrium may take the form of either adaptive or maladaptive behavior. Adaptive behavior, in the budgetary sense, primarily consists of the budgeteer seeking

out the latest and most accurate information from all available sources (superiors, field activities, peers, etc.) to reestablish an updated data base from which to predicate new decisions. James Cribbin describes the forms which maladaptive behavior may take as follows [Ref. 7:p. 205]:

- recourse to aggression
- withdrawal (from people or problems)
- deception (to save face and maintain respect).

It becomes obviously clear that the appropriate course of behavior which a budgeteer should adopt is along the lines of adaptive behavior, from which long lasting and more permanent solutions may be realized, versus maladaptive behavior which yields only short lived relief from the crisis situation.

Highlighted within this chapter have been the following major concepts; a budget is nothing more than specialized decision making, a budget is principally a management tool and much more than a mere accounting device, and the budgeting process is greatly influenced by policy established by higher authority.

In the next chapter we will examine; the external and internal organizational relationships of the Comptroller of the Navy (NAVCOMPT), the functions performed by NAVCOMPT in support of the overall Navy organization,

and the responsibilities fulfilled by the sub-units
within NAVCOMPT.

III. THE COMPTROLLER OF THE NAVY (NAVCOMPT).

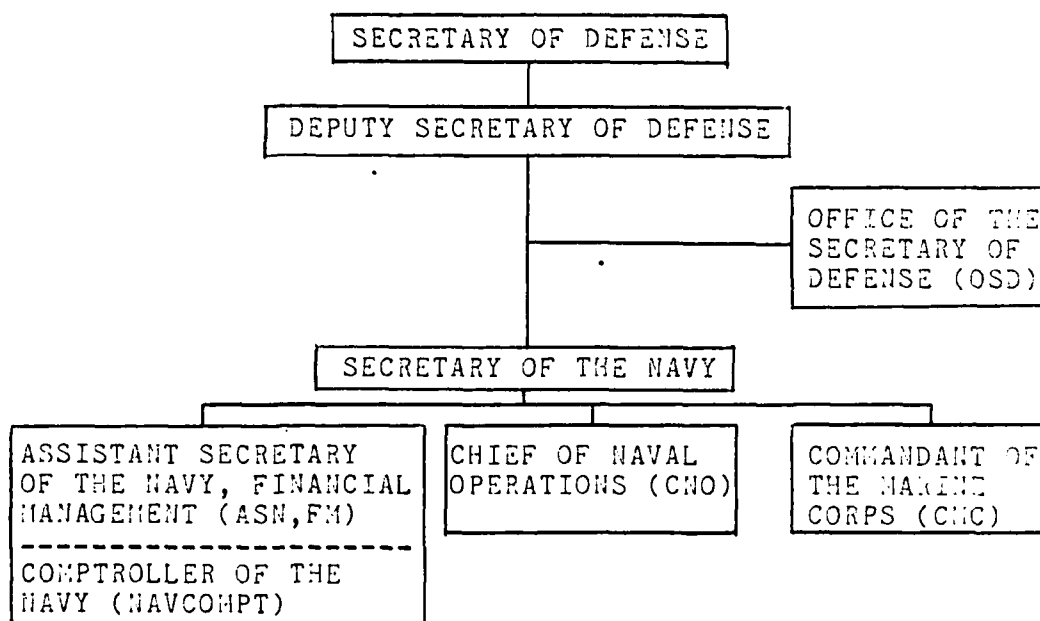
Before we approach the Navy Budget Office (NBO) itself, we should first gain some understanding of the responsibilities and organization of the Comptroller of the Navy (NAVCOMPT). This chapter outlines the following issues and topics peculiar to NAVCOMPT; the external and internal organizational relationships of NAVCOMPT, the functions performed by NAVCOMPT in support of the overall Navy organization, and the responsibilities fulfilled by the sub-units within NAVCOMPT.

The Assistant Secretary of the Navy for Financial Management, ASN(FM), is additionally assigned the responsibility of fulfilling the duties as the Comptroller of the Navy. It should be noted that the position of ASN(FM) is an internal Department of the Navy (DON) organizational prerogative of the Secretary of the Navy (SECNAV), while the position of the Comptroller (NAVCOMPT) is required by Congressional statute.

The Office of the Comptroller of the Navy was established by SECNAV on 1 June 1950 in accordance with the provisions of Title IV of the National Security Act Amendments of 1949. Since its inception, the broad mission assigned to NAVCOMPT has been to establish and implement principles, policies, procedures and systems

which would ensure the effective control over all financial matters within the DON. Table One depicts the external organizational relationship between the Comptroller of the Navy and the overall Department of the Navy structure.

TABLE ONE
 "DEPARTMENT OF DEFENSE ORGANIZATIONAL
 STRUCTURE (SIMPLIFIED)"
 [Ref. 8:p. A-65]



As the fiscal/financial arm of SECNAV, the Comptroller was delegated responsibility for performing the following functions [Ref. 9:p. 1-1]:

- budgeting
- accounting
- progress/statistical reporting
- internal auditing
- management information systems
- financial assistance to defense contractors
- administrative organization structure and managerial procedures related to such responsibilities within the DON.

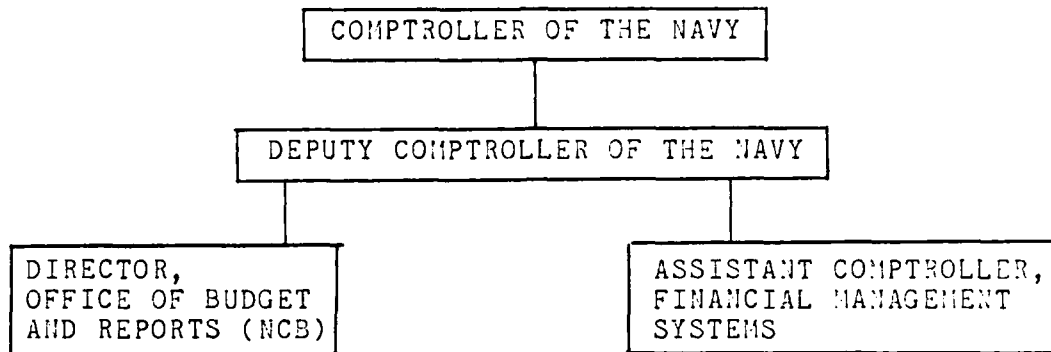
As one can quickly gather, the Comptroller is, indeed, responsible for all financially related matters within the Department of the Navy (DON). The Budget Guidance Manual (NAVCOMPTINST 7102.2A) states, "That the budget functions of the Comptroller of the Navy occur during all phases of the budget cycle, including formulation, presentation, and execution."

The Comptroller of the Navy is assisted in fulfilling his financial responsibilities by the following sub-units whose organizational relationship to NAVCOMPT is depicted in Table Two below:

- Deputy Comptroller
- Assistant Comptroller, Financial Management Systems
- Director of Budget and Reports (MCB).

TABLE TWO

"COMPTROLLER OF THE NAVY ORGANIZATIONAL
STRUCTURE (SIMPLIFIED)"
[Ref. 9:pp. 1-41]



DEPUTY COMPTROLLER. The Deputy Comptroller provides assistance, as directed, to NAVCOMPT and in the absence of the Comptroller, functions in his behalf. Specific daily duties of the Deputy Comptroller include the supervision and management of the Office of the Comptroller of the Navy and related field activities.

ASSISTANT COMPTROLLER, FINANCIAL MANAGEMENT SYSTEMS.
The Assistant Comptroller of Financial Management Systems provides assistance to the Comptroller by formulating policies and procedures to be utilized in the implementation of financial management systems which are designed to improve the effectiveness and efficiency of the financial efforts throughout the DON. Other selected functions performed by the Assistant Comptroller of Financial Management Systems on behalf of NAVCOMPT are listed as follows [Ref. 9:pp. 1.43-45]:

- evaluates and approves financial management systems for both appropriated and nonappropriated funds throughout the DON
- maintains the DON Five Year Defense Program
- oversees the DON Internal Review Program
- appraises the effectiveness of new and existing DON financial management systems; identifies adverse conditions and recommends corrective action for financial management problems throughout the DON.

The above list of selected functions performed by the Assistant Comptroller of Financial Management Systems is by no means a complete listing and the reader is referred to the NAVCOMPT Manual, Volume One for a more complete listing.

DIRECTOR OF BUDGET AND REPORTS. The preponderance of the budgeting responsibilities (at the secretarial level) assigned to NAVCOMPT are performed by the Office of Budget and Reports (OBR), which is supervised by the Director of Budget and Reports (NCB). The following is a list of selected functions assigned to the Director of Budget and Reports (NCB) [Ref. 9:pp. 1.41-43]:

- acts as the principal point of contact for outside agencies and other military department budget offices in all DON budgetary matters
- establishes the general principles, policies and procedures which govern the preparation, presentation and administration of the DON budget
- establishes the appropriation structure which provides the framework for the preparation and subsequent justification of the Navy budget
- directs the analysis and review of budget estimates of the DON and the presentation of the budget to

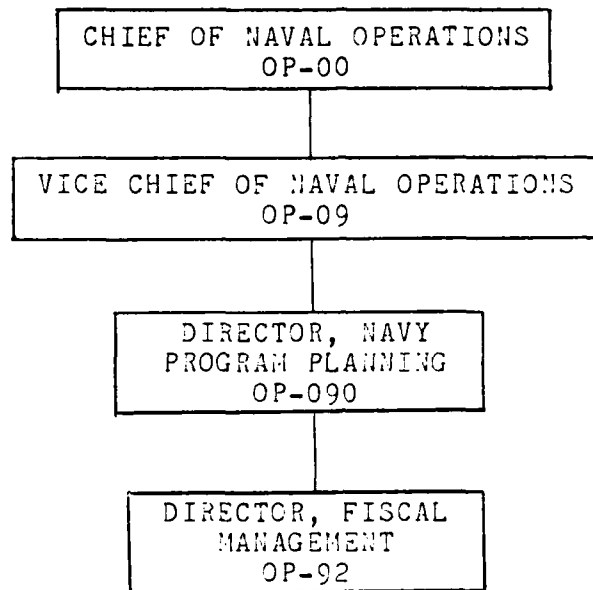
the Secretary of Defense (SECDEF), the Office of Management and Budget (OMB) and the Congress

- exercises fiduciary control at the DON level
- issues policies and guidance on reprogramming of approved funds.

The above list of selected functions performed by the Director of Budget and Reports (NCB) is by no means a complete listing and the reader is referred to the NAVCOMPT Manual, Volume One for a more complete listing.

In addition to functioning for the Secretary of the Navy (SECNAV) as the supervisor of the Office of Budget and Reports (OBR), the Director of Budget and Reports (NCB) functions in a dual capacity (dual hatted) to the Chief of Naval Operations (CNO) as the Director of the Fiscal Management Division (OP-92). Table Three outlines the relationship of OP-92 within the overall CNO organizational structure.

TABLE THREE
"OFFICE OF THE CHIEF OF NAVAL OPERATIONS
ORGANIZATIONAL STRUCTURE (SIMPLIFIED)"
[Ref. 10:p. E-1]



The duties and responsibilities of the Director of the Fiscal Management Division (OP-92), within the Office of the CNO, are delineated in the OPNAV Organizational Manual (OPNAVINST 5430.48). The overall mission assigned to OP-92 is the development and implementation of a financial management and comptrollership system to ensure the effective management control of funds and resources assigned to the CNO. Selected functions performed by OP-92 on behalf of the CNO are listed as follows [Ref. 10:pp. F2-4]:

- formulates the budget for the CNO

- supervises the preparation, analysis and review of the budget estimates for the CNO
- prepares apportionment requests for the CNO and allocates funds as appropriate
- reviews rates of obligation and expenditure of appropriated funds and exercises budget control for those appropriations assigned to the CNO
- acts as the primary point of contact for the CNO's financial management program
- functions as the CNO's liaison with the various Congressional Appropriation Committees
- acts as the responsible officer for the appropriation accounts assigned to the CNO.

The above list of selected functions performed by the Director of Budget and Reports (NCB) in the role as OP-92, on behalf of the CNO, is by no means a complete listing and the reader is referred to the OPNAVINST 5430.48 (Organizational Manual) for a more complete listing.

Of the responsibilities assigned to the Comptroller of the Navy (outlined earlier in this chapter), it is upon the 'budgeting' function and the associated decision making process that the remainder of this paper will focus its attention. The activities performed by NAVCOMPT during the DON budgeting process can be subdivided into three basic phases; formulation (including guidance and budget review), presentation and execution.

Let us now examine the first phase of the DON budget process, that of formulation.

FORMULATION. The Comptroller is responsible for establishing department-wide policies and procedures to be utilized within the DON during the budget formulation process. Preceding the formal budget formulation process, NAVCOMPT provides assistance to the Chief of Naval Operations (CNO) and the Commandant of the Marine Corps (CMC) in the preparation of the DON Program Objectives Memorandum (POM). The POM items will later formulate the basis from which the DON budget will be prepared.

The Office of Budget and Reports (OBR), on behalf of the Comptroller, provides substantive and technical direction applicable to all phases of the budget formulation process. The budget guidance promulgated by the Office of Budget and Report (OBR) is a composite of the requirements from several sources; the Office of Management and Budget (OMB) circulars, policy guidance from the Secretary of Defense (OSD) and the Secretary of the Navy (SECNAV), and various other directions received from the Congress.

An important aspect of the budget formulation process is the 'budget review' conducted by the OBR, on behalf of the Comptroller, of the budget estimates submitted by the various commands throughout the DON. The OBR reviews the budget estimates to ensure that they reflect SECNAV's policy decisions. After the budget

estimates are reviewed, the OBR prepares the formal DON budget for submission to the SECDEF for OSD review. The review of the DON budget by OSD is conducted in conjunction with OBR staff analysts. The OBR budget personnel subsequently provide guidance to the various DON components for the preparation of reclamation to the proposed OSD budget decisions.

PRESENTATION. After its approval by SECNAV, the Comptroller presents the DON budget estimates to the OSD, as indicated above, and OMB. The Comptroller is responsible, after the President's budget is submitted to Congress, for presenting the DON portion of that budget before the various appropriation committees (HAC and SAC) and for providing any additional information requested by Congress on all DON budgetary and financial matters.

EXECUTION. Once Congress has approved the President's budget, the Comptroller reviews apportionment requests from the various DON commands and prepares an apportionment plan for submission and approval by OMB via OSD. The apportionment requests are reviewed by OMB and OSD examiners who schedule apportionment hearings as required. NAVCOMPT staff members and cognizant program officials participate in the hearings. After OMB reviews and approves the apportionment plan, the Comptroller allocates the apportioned funds to the respective

responsible offices and, thereafter, continuously reviews their budget execution performance against the approved budget plan. If the budget execution performance review yields a deviation from the budget plan, NAVCOMPT implements appropriate budget readjustments through revised allocations to the responsible offices. Table Four depicts the overall apportionment and allocation process applicable to the Department of the Navy (DON). The apportionment and allocation process is designed to prevent the occurrence of funding deficiencies or excesses, especially in the annual accounts, through the control of the quarterly obligational rates.

Highlighted within this chapter have been the following central issues and concepts: the Comptroller of the Navy (NAVCOMPT), acting on behalf of the Secretary of the Navy (SECNAV), is responsible for all financially related matters (including budgeting) within the Department of the Navy (DON); the Director of Budget and Reports (NCB), acting on behalf of NAVCOMPT, is responsible for the control, formulation, presentation and execution of the overall DON budget; the Director of Budget and Reports (NCB) functions additionally in a dual reporting capacity as the Director of the Fiscal Management Division (OP-92); the functions performed by NCB/OP-92, on behalf of the SECNAV, are performed under the auspices of NCB and the functions performed by

NCB/OP-92, on behalf of the Chief of Naval Operations (CNO), are performed under the auspices of OP-92; and that the lines of responsibilities between NCB and OP-92 often overlap and occur simultaneously.

Within the next chapter we will investigate the internal organization of the Office of Budget and Reports (OBR), the responsibilities of the various sections within the OBR, the dual reporting responsibilities of the Director of the Office of Budget and Reports (NCB)/Director of Fiscal Management Division (OP-92) and the decision making processes within the Navy Budget Office (NBO).

TABLE FOUR

"THE APPORTIONMENT AND ALLOCATION SYSTEM"
[Ref. 9:p. 3-3]

| DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET | SECRETARY OF DEFENSE | DEPARTMENT OF THE NAVY | |
|--|---|--|---|
| | | NAVY COMPTROLLER | RESPONSIBLE OFFICES |
| REVIEWS AND DETERMINES APPORTIONMENT, NOTIFIES SECDEF | REVIEWS APPORTIONMENT REQUESTS, DETERMINES DOD APPORTIONMENT RECOMMENDATIONS | REVIEWS AND SUBMITS APPORTION- MENT REQUESTS | PREPARE APPORTIONMENT REQUESTS FOR EACH APPROPRIATION |
| | | ALLOCATES APPORTIONMENT AND OTHER FUNDS TO RESPONSIBLE OFFICES | ALLOF FUNDS AUTOMAT- ICALLY PROCURED AS PER APPROVED ALLOCATIONS |

IV. THE OFFICE OF BUDGET AND REPORTS

In this chapter, we will explore the following issues and concepts pertinent to the operations of the Office of Budget and Reports (OBR): the internal organization of the Office of Budget and Reports (OBR); how the structure is set up and how it interacts with its parts; an overview of the decision making process from the perspective of the Office of Budget and Reports (OBR) is discussed and sectional responsibilities are listed and related to this process; and finally the coordinated responsibilities performed under the auspices of the Director of Budget and Reports (NCB) and the Director of the Fiscal Management Division (OP-92) are interrelated.

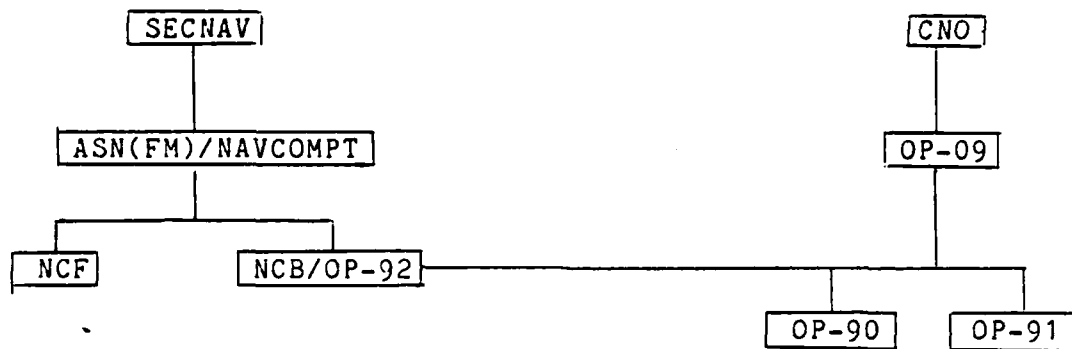
The orientation of this chapter is toward the review of substantive guidance and technical direction provided by the OBR during the Department of the Navy (DON) budgetary cycle.

The Director of Budget and Reports (NCB) is responsible for the internal management (at the secretarial level) of the overall DON budget. This position, as described in Chapter Three, is a dual reporting (dual-hatted) responsibility, the other role being that of the Director of Fiscal Management Division (OP-92) which is, principally, the budget execution arm of the Chief of

Naval Operations (CNO). While serving as the budget officer, on behalf of the Secretary of the Navy (SECNAV), he is functioning as NCB and while serving as the budget execution officer; on behalf of the CNO, he is functioning as OP-92. Table Five depicts the organizational relationship between NCB and OP-92.

TABLE FIVE

"NCB/OP-92 ORGANIZATIONAL RELATIONSHIP"



The budget management process is most easily divided at this point to obtain a better understanding of the budgetary decision making process. First, it must be realized that the dual role (NCB/OP-92) makes the budget management relationships complex in that, as NCB, the budget management is that of a secretarial level review which encompasses all budgetary matters within the Department of the Navy and the Department of the Marine Corps. Such a budgetary relationship results, inherently, in an overlapping and simultaneous performance of

budgetary responsibilities, on behalf of the SECNAV and CNO, by NCB/OP-92. It is upon the policy and substantive review (secretarial level review) performed by NCB, on behalf of the SECNAV, that the remainder of this paper will devote its attention.

A substantial portion of the budget 'formulation' phase of the DON budget cycle involves a review by NCB of each submitting activities' budget estimates. The budget estimates reflect a statement of managerial objectives and priorities, as determined by the various submitting offices. NCB reviews the submitted budget estimates to determine where and to what extent these objectives and priorities can be incorporated into the overall DON budget. Of primary importance is the determination by NCB of a program's 'executability'. Virtually all of the Navy Budget Office (NBO) personnel interviewed during the course of this study emphasized the importance of a program's financial executability during the review of the submitted budget estimates, particularly prior to the secretarial level review. Executability may mean different things to different people. Here, the term executability means that the program (whichever it may be) can be executed or carried out as planned during the budget year. Fixed and cost reimbursement contracts per program are reviewed and end item support phasing is determined to be achievable or

infeasible. To determine executability, a program's prior and current year budget execution performance is reviewed along with the lead time requirements for the production or support of end items, pricing levels and program schedule timing. The preliminary determination of a program's executability is the responsibility of the submitting office. However, a careful review by NCO analysts is required to identify potential funding excesses (which could be redirected into funding for other programs such as those identified as 'unfunded requirements') and deficiencies (which would later require supplemental funding).

The collation and synthesis of the various submitting offices' budget estimates into an overall DON budget plan for submission to the Secretary of Defense is performed by the different divisions within the Office of Budget and Reports (OBR). A description of the divisions within the OBR and the functions which they perform is outlined below. Table Six depicts the internal organizational relationships of the various divisions within the OBR.

Three divisions (NCB-1, NCB-2, and NCB-6), within the OBR, comprise the 'Budget Review Divisions' which are primarily responsible for making the preliminary resource allocation (budgetary) decisions. The Budget Guidance Manual (NAVCOMPTINST 7102.2A) states that,

TABLE SIX

"OFFICE OF BUDGET AND REPORTS ORGANIZATIONAL STRUCTURE"
[Ref. 9:pp. 1-44]

| NCB/OP-92 | | | | | |
|---|---------------------------------------|--|---|--|----------------------------|
| DIRECTOR OF BUDGET & REPORTS/FISCAL MANAGEMENT DIVISION | | | | | |
| NCBA ASSISTANT DIRECTOR NCBB ASSOCIATE DIRECTOR (BUDGET) NCBF ASSOCIATE DIRECTOR (FINANCE) NCBL APPROPRIATIONS COMMITTEES LIAISON NCBM ASSISTANT FOR MARINE CORPS MATTERS | | | | | |
| NCBG | NCB-1 | NCB-2 | NCB-3 | NCB-5 | NCB-6 |
| BUDGET EVALUATION GROUP | OPERATIONS DIVISION | INVESTMENT & DEVELOPMENT DIVISION | FINANCIAL CONTROL DIVISION | BUDGET & MANAGEMENT POLICY & PROCEDURES DIVISION | CIVILIAN MANPOWER DIVISION |
| NCBG-1 EVALUATING BRANCH | NCB-11 CONTROL & COORDINATION BRANCH | NCB-21 MAJOR PLATFORM PROCUREMENT BRANCH | NCB-31 FUNDS CONTROL BRANCH | NCB-51 OPERATIONS BRANCH | |
| NCBG-2 PROGRAM/BUDGET COORDINATION BRANCH | NCB-12 OPERATING FORCES | NCB-22 WEAPONS AND OTHER PROCUREMENT BRANCH | NCB-32 FINANCIAL & STATISTICAL REPORTS BRANCH | NCB-52 INVESTMENT & DEVELOPMENT BRANCH | |
| | NCB-13 SUPPORT FORCES BRANCH | | NCB-33 FINANCIAL OPERATIONAL BRANCH | NCB-53 AUDIT MANAGEMENT PROCEDURES BRANCH | |
| | NCB-14 MANPOWER BRANCH | NCB-23 OTHER INVESTMENT AND DEVELOPMENT BRANCH | | | |
| | NCB-15 REVOLVING & OTHER FUNDS BRANCH | | | | |

These offices are also responsible for preparing or clearing budget material provided to Congress in support of DON appropriations. This material includes budget justification material, statements, transcripts of hearings, answers to questions, and backup or supporting papers.

Budget personnel from the Budget Review Divisions are additionally assigned the responsibilities of attending the various Congressional committee hearings in the role of supporting witnesses. Table Seven below depicts the amount of funding controlled by the two

TABLE SEVEN

"OFFICE OF BUDGET AND REPORTS FUNDING CONTROL"
Fiscal Year 1985 - Budget Authority (Millions)
[Ref. 12:pp. 6d.71-94]

| NCB-1 (1) | | NCB-2 (1) | |
|------------|------------|-----------|--------|
| MPN | 15,701 | APN | 10,987 |
| MRMC | 4,945 | WPN | 4,354 |
| RPN | 1,127 | SCN | 11,636 |
| RPMC | 270 | OPN | 5,342 |
| OMN | 25,163 | PMC | 1,316 |
| OMMC | 1,640 | RDTE | 9,197 |
| OMNR | 829 | MCN | 1,535 |
| OMHCR | 59 | MCNR | 51 |
| MSF | 2,187 | FHM/MC | 658 |
| MSF | 35 | | |
| NIF | 15,374 (2) | | |
| NCIF | 102 (2) | | |
| Total | | 45,496 | |
| Percentage | | 40.3% | |

Notes: (1) Includes Civilian Manpower figures
(NCB-6)
(2) Based upon Total Obligation figures

primary departments within the 'Budget Review Divisions', that of the 'Operations Division' (NCB-1) and the 'Investment and Development Division' (NCB-2).

In summary, the 'Budget Review Divisions' determine, within the guidelines of control at their level, how finalized and scarce resources are allocated within the Department of the Navy (DON).

The remaining divisions (NCB-3, NCB-5, and NCBG) perform various staff and support functions, in support of the overall DON budgetary process. These staff and support functions include, but are not limited to, the following:

- controls of the DON budgetary process
- issues programmatic policy and budgetary guidance
- initiates the DON budget cycle through their issuance of the 'budget call'
- issues budget schedules and formats for preparation of the DON budget estimates
- resolves appropriation conflicts between the various OBR divisions
- maintains the DON appropriation structure
- ensures the reflection of audit findings into the overall DON budget
- creates applicable budgetary finding documents and financial reports
- disseminates DON budgetary related statistical data.

NCB-1: OPERATIONS DIVISION. As the 'Operations Division', NCB-1 is responsible for the budget formulation of the military personnel and operations/maintenance efforts within the DON. The Operations Division is

responsible for the budget administration of the following appropriation accounts [Ref. 11:pp. 1-12]:

MPN----- Military Personnel, Navy
MPMC----- Military Personnel, Marine Corps
RPN----- Reserve Personnel, Navy
RPMC----- Reserve Personnel, Marine Corps
OMN----- Operations and Maintenance, Navy
OMMC----- Operations and Maintenance, Marine Corps
OMNR----- Operations and Maintenance, Navy Reserve
OMMCR----- Operations and Maintenance, Marine Corps Reserve
NSF----- Navy Stock Fund
MCSF----- Marine Corps Stock Fund
NIF----- Navy Industrial Fund
NCIF----- Marine Corps Industrial Fund

Markups are influenced and changed, not only by cognizant personnel within the various divisions, but, also, by the Program Decision Memorandums (PDM) adjustments, Congressional actions or Congressional reactions, Chief of Naval Operations/Commandant of the Marine Corps or Secretary of the Navy. Very often the new pricing guidance changes become common interdictions at this point.

NCB-2: INVESTMENT AND DEVELOPMENT DECISION. As the 'Investment and Development Division', NCB-2 is responsible for the budget formulation of the long term DOW

investment and development efforts. The Investment and Development Division is responsible for the budget administration of the following appropriation accounts [Ref. 11:pp. 1-12]:

- APN----- Aircraft Procurement, Navy
- SCN----- Shipbuilding & Conversion, Navy
- WPN----- Weapons Procurement, Navy
- OPN----- Other Procurement, Navy
- PMC----- Procurement, Marine Corps
- RDT&E---- Research, Development, Test and Evaluation
- MCM----- Military Construction, Navy
- MCMR----- Military Construction, Navy Reserve
- FH,N/MC-- Family Housing, Navy & Marine Corps

This division conducts a preponderance of its markups, follow-up actions, reviews and responsibilities, in essentially, the same manner as NCB-1, as described above. NCB-2, as well as NCB-1, assists the SECNAV in the justification of various budget inputs and their subsequent markups before Congressional committees, the OSD, and the OMB, as it is found necessary. Specific data that is requested by Congress is also prepared by NCB-2 and NCB-1. Examples, such as, specifically selected costs of acquisition are most prominent and any time that Congress would require more data, these divisions assist in the preparation of such data. A

greater tendency (particularly by NCB-2) is to conduct examinations for 'phasing' or checking for requirements of the end product and cutting or reassigning assets if not required until the following year. Here, unobligated balances, which will be looked at later in this paper, are some of those procurement anomalies which hit very hard at the NCB-2 division and make the monetary distribution more difficult to justify to the responsible committees.

NCB-3: FINANCIAL CONTROL DIVISION. As defined in the Budget Guidance Manual (NAVCOMPTINST 7102.2A), this division administers the "financial control systems, procedures for the apportionment and subsequent allocation of funds and resources, and the reprogramming process". Here the creation of the funding documents is performed and the financial reports are prepared. General Accounting Office reviews, surveys and reports are coordinated by this division. The enhancement of available resources by the 'correctness' of controls and the proper application of these correct controls is managed carefully in this division.

NCB-4. It should be noted that, through past organizational consolidations within NAVCOMPT and the OBR, this division no longer exists within the organizational structure of the Office of Budget and Reports (OBR).

NCB-5: BUDGET AND MANAGEMENT POLICY AND PROCEDURES

DIVISION. The divisional responsibilities and authority of NCB-5 are more widely dispersed and oriented toward maintaining a 'big picture' perspective than the other divisions within the OBR. After, and often during, the budget review process, conflicting issues concerning appropriation related matters often surface which individual divisions within the OBR can not resolve. Such conflicts often involve the determination and establishment of policies pertaining to funding responsibilities (who within the DON is going to pay for it). NCB-5 makes a determination of the appropriate lines of responsibility and issues resolutions to such conflict situations.

During the internal DON budgeting process, the necessity to transfer funding responsibility from one appropriation to another occasionally occurs. NCB-5 analysts are responsible for reviewing such issues and making recommendations regarding 'appropriation policy' to the OBR divisions experiencing difficulty resolving such conflicts.

The development and administration of Navy audit management procedures, pertaining to the budgeting function, as well as their evaluation of and their financial impact upon the Department of the Navy (DON) budget are controlled by NCB-5. This may be

characterized by "What you can spend" and "Who is responsible for spending it". NCB-5 creates some of the ground rules for budget formulation. NCB-5 will advise the Budget Review Divisions by suggesting marks which are based on audit reports which are originated by three basic organizations:

- Government Accounting Office (GAO)
- Department of Defense (DOD)
- Department of the Navy (DON).

The importance of this is that it gives the various analysts in the appropriate divisional structures a good feeling for as well as the fuel for making early, correct, and organized decisions for the preparation of the information in their respective areas.

The recommendations contained in various audit reports are often overlooked by the submitting offices and, consequently, are closely examined by NCB-5 analysts. Audit report findings are required to be reflected in the budget estimates proposed by the submitting offices. These audit results are submitted in the form of an exhibit which is turned into the system. This statement of audit savings is passed to NCB-5 immediately and then used in the formulation of the DON budget.

NCB-6: CIVILIAN MANPOWER DIVISION. The 'Civilian Manpower Division' performs, in a congruent fashion, the

same basic functions as NCB-1 and NCB-2 except that this division is responsible for a different area of budget management within the Office of Budget and Reports (OBR).

The Civilian Manpower Division prepares the mark up and final budget estimates for civilian manpower throughout the DON. This centralized budget decision making capability is required because civilian manpower crosses many lines of control (civilians are in all facets of the DON). NCB-6 is responsible for the inclusion of the civilian budget estimates into the overall DON budget and for the subsequent justification of these estimates before the Office of the Secretary of Defense (OSD), the Office of Management and Budget (OMB) and Congress, much the same as the justifications presented by NCB-1 and NCB-2 for their respective appropriation accounts.

NCBG: BUDGET EVALUATION GROUP. This division serves as the 'quick reaction' choke point for the internal management of crisis (short fused) budgetary issues (within the OBR). This 'crisis coordination' is required to ensure the timely collation and synthesis of all DON budget issues which require quick response and resolution. To properly accomplish this immense task NCBG is assigned the responsibility for the DON budget guidance and control. NCBG evaluates the effectiveness of the budgetary controls, within the Department of the Navy (DON), and is responsible for coordinating budgetary

decisions made by Office of the Secretary of Defense (OSD).

Budgeting schedules and formats are established for guidance and control, and proper operation is overseen as closely as time constraints allow. Budget control numbers (final) are maintained for both DON appropriations and individual appropriations. Because the volume of information is cyclical and time critical as well as massive in its quantity, a valuable interface with the automatic data processing system (ADP) is also coordinated by MCBG. This division closely follows the review process to ensure the timely function of the ADP system and the tracking of the various appropriations as necessary.

MCBG is the office that puts out the 'budget call' to the major claimants (submitting activities) and schedules the requirement dates for responses from those submitting activities.

The budgetary decision making process continually overlaps and cuts across divisional lines of responsibility within the OBR. MCBG is responsible for the coordination of the overall budgeting efforts of the various divisions of the OBR. Budget coordination by MCBG is essential to the development of a 'consistent' budget plan because of the decentralized budgetary decision making process utilized within the DON. The synthesis

of this cross movement requires sensitive coordination by NCBG and it is here that one may observe the earliest parts of the DON's budget structure formulated and synthesized.

Congress requires that the Department of Defense (DOD) budget, of which the DON budget is a subset, be structured according to appropriation accounts. NCBG is responsible for managing the appropriation structure within the DON.

The organizational structure, within the OBR, that has been presented thus far is the one which is written, in the majority of usage, and well adhered to in the internal management of the budget process within the DON.

Highlighted within this chapter have been the following issues and concepts pertinent to the internal structure and decision making processes within the Office of Budget and Reports (OBR): the budget review divisions (NCB-1, 2 and 6) review of the budget estimates for all the appropriation accounts within the Department of the Navy (DON) and the other divisions within the Office of Budget and Reports (NCB-3, NCB-5 and NCB-6) performs support functions dealing with budget control, policy formulation and reporting.

This leads us into the next chapter where we will discuss the decision making process within the Office of Budget and Reports (OBR) and the various influences

which impact upon it. As we will reveal, in the following chapter, the political situations that budgeting create will proliferate changes in the way 'business' is done and cause constant variations in the decision rules used to conduct that business. The budget decision making procedures to support the budget structure are revealed to be more flexible and subjective at the higher levels of decision making within the HBO than at the lower levels which principally concern their review to analysis and fact gathering of budget estimates. We will also examine the broad provisions of the Balanced Budget and Emergency Control Act of 1985 (Gramm-Rudman-Hollings), its impact upon the Department of the Navy's (DON) budget and its implications from a budget decision making perspective.

V. DECISION MAKING WITHIN THE NAVY BUDGET OFFICE

Within this chapter we will investigate from the perspective of the office of Budget and Reports (OBR), the following subjects; the major issues (from a macro point of view) which directly impact upon budgetary decision making within the OBR), the political and technical considerations which influence how budget decisions are made within the OBR, and the budgetary decision making process as it exists within the Navy Budget Office (NBO).

Let us begin by exploring (from a macro point of view) some of the broad yet basic resource allocation issues which directly or indirectly impact upon budget decisions within the Office of Budget and Reports(OBR).

SIX HUNDRED SHIP NAVY. One principal factor which affects budget decisions within the Department of the Navy (DON), from a macro perspective, is the Secretary of the Navy's (SECNAV's) stated objective of establishing and maintaining a six hundred ship navy with global capabilities. As has been readily admitted by a Navy budget official, there is 'nothing special' about the magic number six hundred, except that it drives practically all other budget decisions within the DON. Along with this somewhat arbitrary number (six hundred) comes

the associated budgeting and funding considerations: determining what types and amounts of additional hardware (ships, aircraft and related support equipment) and additional manpower that must be procured or supported in order to obtain the projected growth; determining the rate (schedule) at which such hardware can be realistically expected to materialize; budgeting and coordinating the required funding in concert with the projected production schedule; and determining the most efficient manner (multi year contracting, off the shelf purchasing, competitive bidding, etc.) in which to procure the needed hardware. To place the importance of the six hundred ship objective and its budgeting impact into perspective, a Navy budget official relates:

The six hundred ship goal drives other resource allocation decisions made within the Department of the Navy. Once you have reached a six hundred ship Navy, you have to purchase approximately 20 ships and anywhere between 275 and 300 aircraft annually just to maintain that goal. Anything less than this, you will gradually shrink the overall size of the Navy's forces.

COMMANDER-IN-CHIEFS' DILEMMA. Another issue which impacts resource allocation decisions, which the highest levels of the budgetary decision making chain of command within the Department of the Navy (DON) must address, pertains to the degree of centralization or decentralization which the DON budget decision making process should be allowed to possess. Recent emphasis has been placed,

by some individuals within the federal government, upon decentralizing the resource allocation process and placing more authority for making budgetary decisions further down the resource allocation chain of command. Within the DON this emphasis is reflected by the 'CINC's dilemma'. On the one hand, the Commander-in-Chiefs are the individuals who possess the most detailed knowledge of the resources required to operate and meet the operational needs of their theaters of operations. Yet, on the other hand, a CINC, almost by definition, is not a person with the broad picture of the overall resource allocation requirements on a departmental basis. It is proposed, by the proponents of the centralized approach to resource allocation, that more CINC control of budget decision making would fragment the resource allocation process and introduce more political infighting that has been experienced before. Synonymous with the decentralized approach to resource allocation is the 'ricebowl theory'. The principal thrust of this theory is that a lot of people possess the perception that money and power are equivalent. This basic premise can be expressed as follows, "If my command gets more money, my command is better off and the person who gets that additional money is more powerful than his predecessor". Somewhat in conjunction with the 'ricebowl theory' is the 'not invented here syndrome'. The 'not invented

here syndrome' is more partisan in nature, reflecting the viewpoint of resource allocation decision making held by some budgeteers, that, "If I did not think of it, it obviously has to be wrong and I'm not going to support it". Both the 'ricebowl theory' and the 'not invented here syndrome' are indicative of a more localized perspective of the resource allocation process and tend to 'unfocus' the budgeting efforts realized through a more centralized resource allocation (budget) process. The issue of how much centralization or decentralization (CINC's dilemma) that the Department of the Navy's (DON) budgetary process will be allowed to possess will obviously have to be addressed and resolved at only the highest levels within the DON resource allocation decision making chain of command.

FULL VERSUS PARTIAL FUNDING. Another principal budget decision making factor, which must be addressed by budgeteers within the Navy Budget Office (NBO), is whether to fully or partially fund a particular program or item. There is increasing pressure from some members of Congress to have the Department of Defense (DOD) estimate the 'total' cost of a program or item, especially those within the procurement appropriation accounts, and to have the 'total' costs reflected in the DOD and DON budget estimates. Fully funded programs project budget estimates in excess of that funding expected to

be expended during the budget year, which gives rise to the perceived under utilization of resources (unobligated balances). These unobligated balances become the target of prey for other program officials seeking support (funding) for their programs. Partial funding reflects budget estimates in tune with the level of funding which can realistically be expected to be expended during the respective budget year. The program funding for various procured assets is a 'living' non-static thing which, starting with the Concept Evaluation Phase where the functional baseline is created for an Operational Requirement (OR) or a Justification for Major System New Start (JMSNS), is not decided until several years into the future. Full funding, in effect, requires military planners to commit to specific programs or equipment purchases years in advance of their actual production and procurement. As a result, flexibility to respond to changes in operational requirements is reduced. Congress has in a sense shifted some of the military strategy decision making responsibility from the Department of Defense (DOD) onto itself. As a Navy budget official stated:

Should Congress perform military strategy and decision making? I should not think so. We must take and separate politics from the reality of military planning.

One can quickly see the budgeting conflict within which DOD and DOD budgeteers are caught. On the one

hand, there is increasing pressure by Congress to 'fully fund'. On the other hand, there is a need, on the part of budgeteers, to 'partially fund' in order to protect present funding levels and to maintain flexibility in the resource allocation decision making process.

PREPOSITIONING OF RESOURCES. Another resource allocation (budget) decision making issue, which DOD and DON budgeteers must address themselves, is the issue concerning the prepositioning of resources into foreign theaters. The prepositioning of resources into potential future theaters of conflict has its obvious advantages. The predominate advantage of 'prepositioning' is the tremendous cost savings which could be realized by transporting resources, in bulk by ship, and storing these resources in the 'hotspot' theaters versus airlifting (more expensive) supplies into the 'hotspots' upon the advent of a future conflict. The prepositioning of resources is not without its disadvantages. Such resources have, in the past, typically proven to be unkept and unready for deployment when needed. The prepositioning of resources require adequate and usually costly storage facilities to maintain them in an appropriate condition. There is increasing pressure, by some members of Congress, to require the host country to bear the burden of providing the required storage facilities.

The degree to which host countries comply with this desire of Congress, directly impacts defense related budget decisions. The degree to which foreign countries fund the storage of prepositioned resources serves as a baseline from which DOD and DON funding requirements for the prepositioning of resources is determined. Other difficulties encountered with the prepositioning of resources include the following; pilferage by our own forces, storage facilities are often in lesser developed and secure areas, therefore, making the resources susceptible to the effects of a black market (theft) and to acts of terrorism. An example concerns the prepositioning of hospital medical 'vans' which are containerized surgery and battle care stations to be used during future conflicts. Some host countries will not allow the prepositioning of such units into their country because of their inability to prevent pilferage and theft. As a result literally tons of resources are being stored in warehouses within the continental United States, such as the Naval Supply Center in Oakland, California. The subjective (political) influences in this situation outweigh the simple objective (technical) considerations for making resource allocation decisions pertaining to the prepositioning of resources. Another difficulty encountered with the prepositioning of resources, is the fact that some host countries simply

want to diminish the American presence and influence in their country.

The decisions pertaining to the prepositioning of resources require a 'subjective' evaluation of political situations within foreign countries and an assessment of where future theaters of conflict may occur. The consequences of this subjective evaluation is carried forward throughout the entire Planning, Programming and Budgeting System (PPBS) within the DOD and DON. As one NBO official relates:

Do you buy everything and put it everywhere, or do you select the most probable areas for future conflict and preposition resources to those selected potential theaters of conflict.

Obviously the first alternative (buy everything and put it everywhere) is, on a practical basis, infeasible due to the limited resources available for Department of the Navy (DON) purposes. One is, therefore, drawn into the necessity of having to make subjective evaluations of foreign political situations.

FORCE READINESS VERSUS FORCE STRUCTURE. A resource allocation strategy which directly impacts decision making within the Navy Budget Office (NBO) concerns the conflict between force readiness versus force structure. Resource requirements for force readiness include funding needed to support primarily the operations accounts, particularly for items which affect steaming time for ships, flying time for aircraft, and training.

Resource requirements for force structure include the funding needed to support the investment accounts, particularly for items which affect the procurement of new ships, aircraft and equipment. The bottom line here is that because of the limited funding available to the Department of the Navy (DON), it can be spent on operating and training or on buying updated equipment. The amount of emphasis (funding) that should be placed upon either function depends upon your perspective and is of course the subject of much debate within the DON. Proponents of force readiness believe that the greatest emphasis should be placed upon utilizing the equipment that we presently have in our inventories and providing more training time (steaming and flying hours) for the available military manpower force. Proponents of force structure foresee a need for acquiring increased technology to counter the foreign naval threat. The determination of the 'correct' mixture between force readiness and force structure, serves as a basis from which resource allocation decisions within the Department of the Navy (DON) will be determined.

NATO SPENDING. Other resource allocation (budget) decisions within the Department of the Defense (DOD), is influenced by the types of programs and equipment funded for the purpose of supporting the North Atlantic Treaty Organization (NATO) countries in Europe. The amount and

composition of programs (types of equipment, manning requirements, etc.) devoted to NATO purposes by the DOD and DON is, to a large extent, predicated by the other member nations within the organization. The nations which comprise NATO are numerous and possess diverse economic and military interests and objectives. Such a composite of often conflicting interests, inherently, results in an interjection of 'politically' based decisions through the entire spectrum of resource allocation decision making. NATO related resource allocation decisions, within the DOD and DON, require the 'subjective' analysis of the political processes within the member nations of NATO. The degree to which other member nations support (fund) the military efforts of NATO serves as a basis for determining DOD and DON NATO related program composition and subsequent funding.

The broad (macro) factors and issues outlined above directly or indirectly set the stage for subsequent budget decisions within the Department of the Navy (DON). Each has an impact upon budget decision making at all levels within the Office of Budget and Reports (NCE).

Let us now examine the basic provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) and its impact upon the

Department of the Navy's (DON) budget and its budget decision making implications.

The Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings) has presented budgeteers within the federal government (including the Department of Defense and the Department of the Navy) with the necessity of making definitive budget decisions on a broader scale than has ever been faced before. Gramm-Rudman-Hollings (GRH) establishes as a major objective of eliminating the total federal deficit by the year 1991. GRH requires that federal deficit target figures be achieved in accordance with the time schedule contained in Table Eight below.

TABLE EIGHT

"GRAMM-RUDMAN-HOLLINGS DEFICIT
TARGET FIGURES TIME SCHEDULE"
(Billions)

[Ref. 12:PP. 2-14]

| <u>Fiscal Year</u> | <u>Deficit Target</u> |
|--------------------|-----------------------|
| 1986 | -171.9 |
| 1987 | -144.0 |
| 1988 | -103.0 |
| 1989 | - 72.0 |
| 1990 | - 35.0 |
| 1991 | 0.0 |

To achieve the Department of the Navy's (DON) portion of the budget reductions required by Gramm-Rudman-Hollings, the following reductions, as reflected

in Table Nine below, were made for the budget years Fiscal Year 1986 and prior.

TABLE NINE

"DEPARTMENT OF THE NAVY BUDGET REDUCTIONS"
(Millions)

| <u>Appropriation Account</u> | <u>Fiscal Year 1986</u> | <u>Fiscal Year 1985 & Prior</u> |
|----------------------------------|-----------------------------|---|
| MILPERS | -62.4 | 0.0 |
| OPERATION & MAINTENANCE | -1,332.7 | 0.0 |
| AIRCRAFT PROCUREMENT | -547.6 | -140.0 |
| WEAPONS PROCUREMENT | -256.2 | -104.4 |
| SHIPBUILDING & CONVERSION | -490.1 | -576.3 |
| OTHER PROCUREMENT | -296.0 | -105.3 |
| PROCUREMENT, MARINE CORPS | -81.4 | -33.2 |
| COASTAL DEFENSE FUND | -11.5 | 0.0 |
| RDTE | -493.2 | -20.6 |
| MILCON & FAMILY HOUSING | -118.2 | -42.1 |
| STOCK FUNDS | -33.1 | 0.0 |
| <hr/> | | |
| TOTAL DEPARTMENT OF THE NAVY | -3,722.4 | -1,022.6 |

The President's Budget for Fiscal Year 1987 (including the Department of the Navy's budget estimates), as submitted to Congress, is considered to meet the objectives of obtaining a balanced budget by 1991 and, therefore, should not be subject to the provisions of GRH. As stated by President Reagan in the 'Budget of the United States Government-Fiscal Year 1987':

. . . In so doing, my budget meets or exceeds the deficit reduction targets set out in the Balanced Budget and Emergency Deficit Control Act, commonly known for its principal sponsors as Gramm-Rudman-Hollings.

Opponents within the Congress, however, do not agree with the President's viewpoint and have recommended

further adjustments (reductions) to the FY87 federal budget. These proposed adjustments by Congress upon the Department of the Navy's (DON) FY87 budget estimates are reflected in Table Ten below.

TABLE TEN

"DEPARTMENT OF THE NAVY CONGRESSIONAL
BUDGET ADJUSTMENTS - FISCAL YEAR 1987"
Billions - (Note 1)

| <u>Appropriation Account</u> | <u>President's Budget</u> | <u>Congress Adjust</u> | <u>Proposed Appropriation</u> |
|----------------------------------|-------------------------------|----------------------------|-----------------------------------|
| Military | | | |
| Personnel | | | |
| Navy | 18.6 | -1.4 | 17.2 |
| Marine Corps | 5.5 | -0.4 | 5.1 |
| Operations and Maintenance | | | |
| Navy | 26.3 | -1.4 | 25.4 |
| Marine Corps | 1.7 | -0.1 | 1.7 |
| Procurement | | | |
| Navy | 35.7 | -1.3 | 33.9 |
| Marine Corps | 1.7 | -0.1 | 1.7 |
| RDT&E | 11.3 | -1.2 | 10.1 |
| Military Construction | 2.1 | -0.4 | 1.7 |
| Family Housing | 0.7 | -0.1 | 0.7 |
| Stock Fund | | | |
| Navy | 0.7 | -0.1 | 0.6 |
| Marine Corps | Note 2 | Note 2 | Note 2 |
| <hr/> | | | |
| Total DON | 104.8 | -6.3 | 98.0 |
| Total Navy | 95.9 | -6.3 | 39.6 |
| Total Marine Corps | 8.9 | -0.4 | 8.5 |

- Notes: (1) Figures subject to effects of rounding.
(2) Less than \$50 million.

The proposed appropriation figures outlined above are, of course, subject to change as the differing viewpoints toward Gramm-Rudman-Hollings applicability to

the Fiscal Year 1987 is resolved and debated during the upcoming months until final passage of the 'Budget of the United States Government-Fiscal Year 1987'.

From a decision making perspective, Gramm-Rudman-Hollings (GRH) presents a budgeting enigma. When viewed from a broad point of view, GRH represents budget decision making in the sense that Congress had to consciously choose between the potential consequences of not instituting federal deficit reducing legislation, such as GRH, and the potential impact upon the economy and national welfare by mandating required budget reductions to achieve the elimination of the federal deficit by 1991. Gramm-Rudman-Hollings, when viewed from a more localized perspective (Department of the Navy), seems to possess no real traits of budgetary decision making. By simply requiring an across-the-board budget reduction of 4.9 percent within the federal government, it may be proposed that Congress has not made any real budget decisions or choices between programs but merely shifted the burden of budget decision making, required to achieve the objectives of GRH, upon the various governmental departments. Due to the enormous quantity of governmental programs funded by the 'Budget of the United States' and the ever increasing complexity and interrelationship between various governmental programs and the overall nation's economy and

welfare, it is virtually impossible for legislators and budgeteers to predict, with any reasonable assurance, the impact of implementing any budget reducing piece of legislation such as Gramm-Rudman-Hollings. The effects of GRH can only be observed as they occur and appropriate adjustments made primarily on an 'after the fact' basis.

Highlighted within this chapter have been the following issued and concepts: broad (macro) resource allocation factors, both within and without the Department of the Navy (DON), which influence budget decision making by the Office of Budget and Reports (OBR) including but not limited to: the goal of establishing and maintaining a six hundred ship navy, the Commander-in-Chief's dilemma, full versus partial funding, the prepositioning of resources, force readiness versus force structure, and NATO spending. The impact of Gramm-Rudman-Hollings upon the federal government is largely undeterminable, thereby, placing legislators and budgeteers alike into a 'wait and see' situation.

Within the next chapter we will explore the impact of budget decision making upon four of the major Department of the Navy (DON) appropriation accounts: military personnel; operations and maintenance; procurement; and research, development, test and evaluation. We will also examine the budgetary decision making considerations

and their impact upon the budgeting process as it exists within the Department of the Navy (DON).

VI. DECISION MAKING AND NAVY BUDGETING

Before we discuss the decision making considerations that impact the budgeting process within the Department of the Navy (DON), we should first gain an understanding of the overall DON budgeting process. Table Eleven below outlines the budgeting process and time schedule to be followed during the development of the Department of the Navy's (DON) budget estimates. More specific dates are published via separate NAVCOMPT notices each budget year.

The budgetary process, within the Department of the Navy (DON), can best be described as a 'bottom up' process involving practically all levels within the DON; driven the 'top down' policy guidance and direction. The flow of budgetary guidance and budget estimates within the Department of the Navy (DON) budget cycle is depicted in Table Twelve below.

TABLE ELEVEN

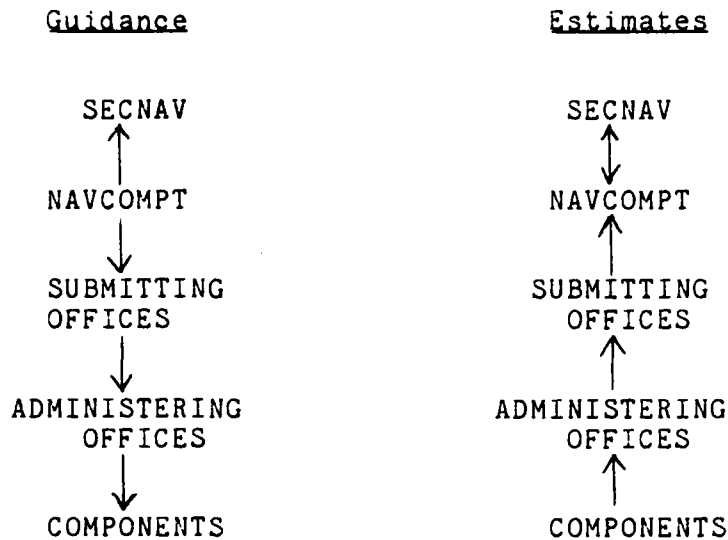
"DEPARTMENT OF THE NAVY BUDGET
DEVELOPMENT ACTIVITIES AND
TIME SCHEDULE"

[Ref. 11:pp. 1-35]

| | |
|--|------------------------|
| Issue budget guidance | Early May |
| Issue POM controls | Early May |
| Budget submission due to NAVCOMPT | Late June-Mid July |
| Budget Hearings | Late June-Late July |
| Distribution of Markups | Late July-Early August |
| Reclamas submitted to NAVCOMPT | Late July-Mid August |
| Initial Reclamas Reviews | Early-Mid August |
| Receive Program Decision Memorandum from OSD | Early-Mid August |
| Presentation of Budget to the Secretary of the Navy | Mid-Late August |
| Issuance of Controls and Budget Guidance | Late August |
| Budget Submission to OSD/OMB | 15 September |

TABLE TWELVE

"FLOW OF BUDGET GUIDANCE AND ESTIMATES
WITHIN THE DEPARTMENT OF THE NAVY"



The influence and importance of 'policy' issues from the 'top down' can not be over emphasized. Policy establishes the overall framework within which all resource allocation (budgetary) decisions will ultimately be determined. The overall objective of 'policy' is the maintenance of 'consistency' within the DON budget decision making process. To maintain budget consistency, everyone within the resource allocation decision making process must be cognizant of and adhere to the 'policy' established from the 'top down'. Without a certain degree of budget consistency, the credibility of budget decisions, and sometimes even the decision makers themselves, are subject to question and criticism. This

concept of 'unified thought' must exist at all levels throughout the DON budgetary system and particularly at the departmental level (Navy Budget Office). As a Navy budget official stated:

For the budget to be successful, everyone in the decision making process must be, to some extent, captives of leadership. The way it works, within the DOD and regardless of the fact that you are a high ranking budget expert, is that if either the SECDEF or SECNAV are for something, you pursue it.

The positive effect of budgeting consistency is a focusing of the budgeting efforts upon the most important programs or items as identified by 'policy' objectives and goals. The need for consistency, within the Department of the Navy (DON) budgetary decision making process, must be balanced against the negative effect of consistency, that of 'stagnation'. Stagnation results in the lack of introduction of new ideas into the resource allocation decision making system. Too much consistency can breed the notion among budgeteers that, "We have always made budget decisions this way, why should we change now". Obviously such an attitude, allowed to be introduced into the DON budget system, would stymie one of the most important characteristics of an effective resource allocation decision making system, that of 'flexibility'. Flexibility allows for the optimal distribution or maximum utility of the resources entrusted to the Department of the Navy (DON). Without budgeting flexibility, inefficiencies would inherently

occur, resulting in the under utilization of the resources approved for use by the Department of the Navy (DON).

Within the Navy Budget Office (NBO), from the budget analyst to the Director of Budget and Reports (NCB), the budget decision making process involves varying degrees of subjective and objective influences. On the one hand, there are strictly the numbers or "It makes the best business sense". On the other hand, there are the politics or "It makes the best political sense". The relative importance of each viewpoint toward budgeting is, of course, the subject of much debate. As one Navy official relates:

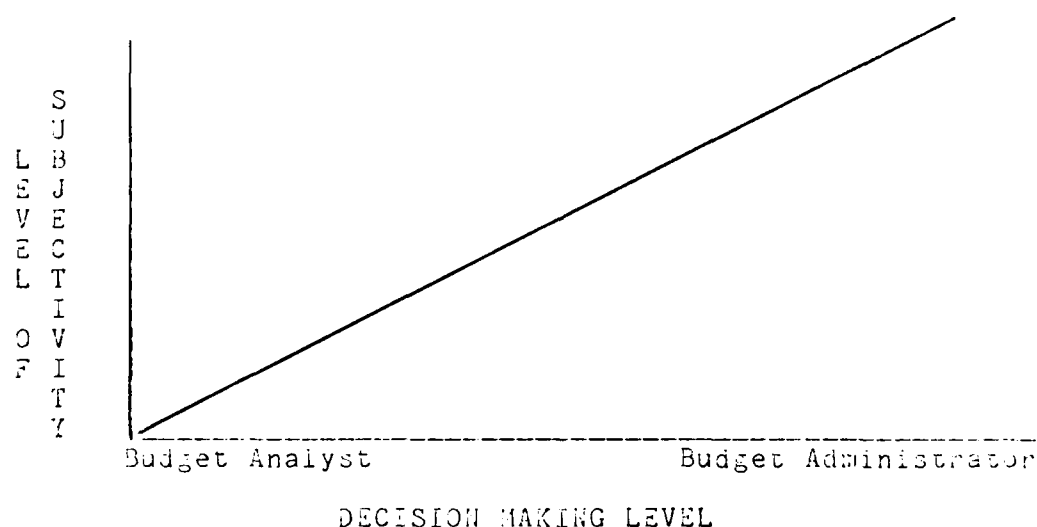
The resource allocation (budget) process is nothing more or less than a subjective process. You, as future Navy financial managers, will often become frustrated when your superiors insist upon making budget decisions more upon subjective issues than upon technical or economic issues. You must be able to adapt to that.

The lower levels of budget decision making within the Navy Budget Office (NBO), that of the budget analyst, can be described as being more objective in nature as opposed to the highest level, that of the Director of Budget and Reports (NCB), which is more subjective in nature. As one progresses up the budget decision making chain of command, within the NBO, one can observe a tradeoff between the subjective and objective influences. Budget analysts view budget decisions more in terms of cost estimates, pricing, program schedule executability

and prior budget execution performance. Decision makers at the higher levels within the NBO view the budget decisions more in terms of what behavioral responses will be elicited as the result of a particular budget decision. It should be noted at this point, that at any decision making level within the Navy Budget Office (NBO), there exists a mixture of subjective and objective influences upon the budget decision making process. No level of decision making within the NBO is therefore totally devoid of some degree of subjectivity or objectivity. Table Thirteen below depicts the subjective versus objective influences upon the decision making process within the Navy Budget Office (NBO):

TABLE THIRTEEN

"SUBJECTIVITY VERSUS OBJECTIVITY
OF THE DECISION MAKING PROCESS
WITHIN THE NAVY BUDGET OFFICE."



Let us now explore the decision making considerations, from the perspective of the Office of Budget and Reports (OBR), applicable to the formulation phase (guidance, review, markup and reclama) of the Department of the Navy (DON) budget cycle.

The Office of Budget and Reports (OBR), during the budgeting phase of the Planning, Programming and Budgeting System (PPBS), prepares and reviews the DON budget estimates for submission to the Secretary of the Navy (SECNAV) and the Office of the Secretary of Defense (OSD). The first year of the Program Objectives Memorandum (POM) Five Year Defense Plan (FYDP) is used as a baseline for reviewing all aspects of each program's budget estimates. Emphasis is given to ensure that a particular program is both executable and correctly priced, as well as reflecting various late arriving guidance and direction from Congress, the Office of Management and Budget (OMB), the Office of the Secretary of Defense (OSD) and the Secretary of the Navy (SECNAV). The ultimate objective of the formulation phase is the forwarding of the final DON budget estimates to OSD and OMB for subsequent review, approval and incorporation into the President's budget.

Budget formulation describes the events which must be performed during the development and review of the Department of the Navy (DON) budget estimates. The

formulation phase of the DON budgetary cycle consists of the following subactivities [Ref. 9:p. 2-1]:

- the issuance of program and technical guidance
- the estimating of resource requirements to meet the program and technical guidance
- the preparation of budget documents and supporting data in the format required by review echelons
- the hearings, analyses and recommendations developed at each level within the executive branch.

To initiate the budget formulation phase, the OBR issues budgetary guidance to be followed during the preparation of the DON budget estimates. The purpose of budget guidance, as outlined in the NAVCOMPT Manual (Volume Seven), is stated as follows:

Budget guidance is issued to assure consistency in the preparation of budget estimates throughout the Department of the Navy.

It should be noted that the budget guidance provided by the Office of Budget and Reports is a composite of policy directives received from various organizations, principally SECNAV, OSD, OMB and Congress. The budget guidance issued by the OBR can be described as being substantive or technical in perspective. Substantive guidance is promulgated in the form of standing manuals, notices and instructions. Principal among these documents is the NAVCOMPT Manual (Volume Seven) which outlines the broad budgetary procedures and processes within the Department of the Navy (DON). General technical guidance (now to) is provided by the OBR

through the Budget Guidance Manual (NAVCOMPINST 7102.2A) with more specific complementary technical guidance issued via NAVCOMPTNOTICES 7110 AND 7111 series. The importance and impact of policy guidance (from a subjective perspective) upon the DON budget decision making process was discussed earlier in this chapter.

The budget review (markup) portion of the formulation phase is set into motion by the Office of Budget and Reports issuing a 'budget call' to the various headquarter activities throughout the Department of the Navy. Each headquarter activity, at its discretion, disseminates the OBR guidance with its own supplementary guidance, to lower echelons as required to obtain their participation in the development of the DON budget estimates. The amount of time required to collect and synthesize their respective budget estimates is predicted upon how far down the resource allocation chain of command allowances have been made for budget estimates to be introduced into the decision making process. The deeper into the user area from which the initial budget estimates are introduced into the budget system, the more accurately will the budget estimates reflect the resource requirements of the various components within the DON. The strengths derived from the budget inputs of the lower levels, within the decision making process, often make it more cumbersome to utilize at the

secretariate level due to the diversification and sheer volume of the budget estimates. It should be emphasized that as a staff office, the Office of Budget and Reports has no responsibility for making programmatic related decisions but is responsible for surfacing basic program issues which have a direct influence upon the budget and for delineating the budgeting implications of these program questions.

Budget analysts, within the Navy Budget Office view the initial budget estimates with a preconceived 'downward bias'. This 'cutting' viewpoint, on behalf of NBO budget analysts, assumes that there is always some amount of funding which can be cut from the situation in which the initial funding estimates for the various DON programs are made during the programming phase of the Planning, Programming and Budgeting Systems (PPBS). Because the programming phase occurs during the earlier portion of the cost estimation process, it is subject to more uncertainty with regard to 'actual' program costs. Consequently, program officials tend to over-estimate total program costs in order to compensate for this greater degree of uncertainty. As one NBO official stated:

You never know exactly what a program is going to cost until you pay for it.

While some degree of accuracy in program cost estimates during the programming phase is required,

total accuracy is, on the other hand, not essential and to a certain extent not desirable. Another Navy Budget Office (NBO) official relates:

During the programming phase, budget figures plus or minus ten percent is OK. Too much time is often spent (during the programming phase) trying to decide how much, instead of if.

During the formulation phase of the budgeting cycle, the Office of Budget and Reports analysts review the budget estimates, submitted by the various submitting offices, to determine the 'reasonableness' of the budget estimates. Credibility and believability are an integral part of the relationship between the submitting officials and the OBR budget review personnel. Credibility constitutes the subjective side of the 'reasonableness' of the Department of the Navy budget estimates. As one Navy budget official states:

If you have credibility with your analyst, even if you are wrong you are right, because he can help you with a fix.

By having credibility with the respective appropriation account staff analyst within the Office of Budget and Reports, a working relationship develops where problems with initial budget estimates are resolved prior to the markup and reclama process. If the OBR staff analyst is fully cognizant of the justifications of the budget estimates and the submitting officials have credibility and the budget estimates makes good business sense, the budget estimates are much more

'defendable' by the OBR staff analyst and therefore have a higher probability of making it through the markup and reciam process in a form similar to that which was initially submitted. As another Navy budget official stated:

The best way to get your money back, is never to have lost it in the first place.

Credibility between the submitting officials and the Navy Budget Office staff analysts is not something that is developed within a short period of time. Credibility with NBO staff analysts develops only through the display of a proven history (track record) of providing accurate, up-to-date and reliable budgeting information peculiar to their particular activity. As a Navy Budget Office official again restates:

Hard work is the price you pay to have credibility, you can not achieve credibility based solely upon your baby blues.

After reviewing the 'reasonableness' of all the submitting activities' budget estimates, the Office of Budget and Reports proposes changes to these budget estimates by issuing 'marks' against the various appropriation accounts. These marks are distributed to the respective Department of the Navy components, thereby providing them an opportunity to 'reciam' the proposed cuts or marks. To ensure full dissemination of the budget decisions, the budget marks are also distributed to the Secretary of the Navy to ensure the fullest

exposure of the conflicting resource allocation issues from the lowest to the highest levels throughout the Department of the Navy.

During the 'reclama' process of the formulation phase of the DON budgetary cycle, the submitting activities' rebuttal justifications are reviewed by the Office of Budget and Reports staff personnel. Of primary importance to the submitting activities, when formulating their reclamas, is the need to 'address the facts' upon which the original marks were based. A relatively unsuccessful reclama technique, often employed by submitting officials, is what has been referred to as the 'Muremberg defense' where the most frequently expressed reclama justification has been, "Look, I'm only doing my job, the CO has put a high priority on funding this program". Such a defense is based, not upon the merits or business sense of the program, but simply upon the personal desires of a commanding officer to have a particular program funded. An equally unsuccessful reclama technique is the reliance upon the '600 ship defense' where the reclama justification expressed, by submitting officials is that "Funding for this program (item) is required to help us achieve the SECNAV's stated objective of establishing and supporting a 600 ship navy". Both of the above reclama justification techniques have proven, during the long run, to be

equally ineffective. To put it more simply, the reclama process must address the issues (facts) upon which the original marks were predicted.

Let us now turn our direction toward some of the technical and more objective considerations given by the Office of Budget and Reports staff analysts during the review (markup) process of the formulation phase for the following four appropriation accounts: military personnel; operations and maintenance; procurement; and research, development, test and evaluation. Navy budget analysts review the budget estimates for these four appropriation accounts with the following considerations in mind.

MILITARY PERSONNEL. Of the primary consideration to the Military Personnel (MILPERS) appropriation accounts is the determination of the average cost rates utilized by the Chief of Naval Operations and the Commandant of the Marine Corps in the formulation of their MILPERS budget estimates. Although the rate of military pay and allowances are established by law, the average rate of base pay (the largest contributor to the MILPERS account) is established from estimates. The following estimates bear directly upon the level of the MILPERS appropriation account [Ref. 9:pp. 2-31]: the number of promotions expected to occur during the budget year, the number of personnel gains or losses to occur during the budget

year, and the longevity to accrue during the budget year. Utilizing the above estimates, an average cost rate is computed for each paygrade from E-1 through O-10. This average cost rate is applied to the total number of estimated personnel anticipated for each paygrade. A similar procedure is utilized to determine the average cost rate for basic allowance for quarters. Important consideration must be given by the Office of Budget and Reports budget analysts to the estimated personnel turnover rate which affects the cost of allowances for such things as permanent changes-of-station, reenlistment bonuses, clothing for new recruits and separations [Ref. 9:pp. 2-31].

OPERATIONS AND MAINTENANCE. Review considerations by the OBR analysts for the operations and maintenance appropriation accounts vary with the type of program under consideration. The determination of the 'reasonableness' of budget estimates for the operations and maintenance accounts is based principally upon past experience, work measurement standards, cost accounting information, employment trends, price level changes and prior budget execution performance. Cost data and work measurements are used with reasonable accuracy to determine the funding requirements for programs such as the overhaul of ships, overhaul of aircraft, fleet operations, flight observations, medical care, supply

distribution and real property maintenance [Ref. 9:pp. 2-31]. There is no standard methodology by which analysts within the Navy Budget Office review the operations and maintenance accounts.

PROCUREMENT. The principal consideration for the procurement appropriation accounts is the determination of an accurate 'unit cost'. The cost estimation for 'existing' items is derived through the available cost accounting systems. The cost estimation for 'new' items is derived through the use of engineering cost estimates and the following factors [Ref. 9:pp. 2-32]:

- amount of inventory on hand
- projected consumption rate
- requirement for spare parts
- status of RDT&E programs
- production time schedules
- slippage of production schedule
- required leadtime
- mobilization base
- approval for production.

RESEARCH, DEVELOPMENT, TEST AND EVALUATION. The total funding for Research, Development, Test and Evaluation (RDT&E), within the Department of Defense is maintained at approximately a constant percentage of all DOD appropriations. Although this percentage may vary within each military department, according to emphasis

given by the Secretary of Defense on various programs, a relatively steady level of funding is maintained for the total RDT&E efforts within the Department of the Navy. Cost estimate methods utilized for the above appropriations are not applicable to the RDT&E appropriations due to the fact that RDT&E programs are not typically similar and that operational standards are not usually available. At the higher level within the decision making process, the primary RDT&E budgeting consideration is determining what total level of RDT&E effort is required, in what areas further research is required and the availability of scientific personnel and research facilities. The RDT&E programs are funded incrementally, therefore allowing the review of 'unobligated' and 'unexpended' balances to become the principal methodology by which RDT&E program performance execution may be monitored and the required future financial requirements determined.

After the claimants have submitted their budget requests to the various Department of the Navy departmental analysts, those requests are reviewed for the summary and backup data required to support the requests. Thereafter, hearings are scheduled for the analyst to get additional information (as required) concerning the budget inputs in question. If and when the hearings are conducted, they will have been preceded by questions from the analyst which are sent to the submitting office

for that activity to prepare a statement in support of their original submission.

The Comptroller of the Navy 'marks' are then made as adjustments, corrections or reflections of decisions made concerning the different appropriations; most marks involve budgetary reductions or cuts. Reasons for all these adjustments are given to the submitting offices by the determining analyst and are the basis for the 'reclama' process. NCBG (Budget Evaluation Group) makes the distribution of the 'marks' in return to the respective submitting activities as they are completed by the analysts.

The 'reclamas' are then resubmitted by the claimant which makes the markup only a 'tentative decision' until the reclama can be sorted out and final disposition made upon it. As stated earlier within this thesis, these decisions are usually sorted out at the Director of Budget and Reports level and an agreement reached between the cognizant NCB 'director' and the submitting activity concerning the markup decision.

The Budget Guidance Manual (NAVCOMPTINST 7102.2A) addresses ten common areas in which markups usually occur. They are outlined as follows:

APPROVAL FOR PRODUCTION. One of the principal factors utilized in the formulation of appropriation budgets is the readiness of placing a particular piece

of equipment into production. NAVCOMPT analysts devote particular attention to scheduled milestones leading to a production decision.

UNFUNDED REQUIREMENTS. Unfunded requirements can be categorized into two basic categories: pre and post POM submission. Prior to the submission of the POM, those programs that cannot be executed because of improper pricing or unbalance with respect to other appropriations, are sent back to the resource sponsors and are funded with 'offsets' in coordination with the DONPIC. Shortfalls which occur following the submission of a POM, over which the resource sponsor has no control are funded without requiring offsets from other programs.

PRICING. One of the primary objective of the review process of the 'budget review decisions' is to ensure that the program pricing is reasonable and follows published guidance. Pricing markups reflect pricing guidance received subsequent to the submission of initial budget estimates.

PROGRAM EXECUTABILITY. Determinations as to whether or not the program can be carried out during the budget year becomes a key consideration during the review process. Items such as leadtimes of end and support items, are properly phased, the availability of long leadtime materials, achievable production rates, and the

probability that all deliveries will occur within the funded period, are reviewed to ensure executability.

PROGRAM DECISION MEMORANDUM. Because of the schedule of events during the overall Department of Defense budget review process, programmed decisions from the Secretary of Defense on the Department of the Navy budgetary matters are usually received 'during' the DON review process. These programmed decisions are therefore included in the appropriation markups.

CONGRESSIONAL ACTION. Markups are issued which reflect the latest Congressional actions and guidance and direction.

AUDIT SAVINGS. These markups ensure that audit savings are reflected where appropriate. Markups ensure that valid savings remain within the Department of the Navy and are not lost back to the Office of the Secretary of Defense.

INTERAPPROPRIATIONAL TRANSFERS. Checks are made to ensure that each item is budgeted within the correct appropriation and if transfers are required, that they are made to the correct appropriation.

PRIOR YEAR PERFORMANCE. In reviewing the budget estimates, analysts will ensure that funds are budgeted for the year in which they are required. Low obligation- and expenditure rates reflect 'forward funding' or funding which is in advance of annual requirements. An

unusually high obligational rate may reflect a funding shortfall. Rephasings would be recommended as appropriate to eliminate such discrepancies.

OUTYEARS. Although the primary emphasis of the markup process is upon the budget year and the authorization year, 'outyear' adjustments are made to reflect accurately the impact of the program and funding decisions made during the budget review as well as the impact of fiscal reality.

Let us now review the Fiscal Year 1987 markup justifications for the following appropriation accounts: Weapons Procurement (WPN); Shipbuilding and Conversion, Navy (SCH); Aircraft Procurement, Navy; Research, Development, Test and Evaluation (RDT&E); Other Procurements, Navy (OPN); and Operations and Maintenance, Navy (OMN).

The markup justifications and adjustments are shown for FY87 Department of the Navy appropriation accounts in Table Fourteen. This table displays the frequency of occurrences of a particular type of markup by appropriation category. It does not display the amount (dollar) or impact of the issued mark but merely points out the reasons why a particular mark was made. The accounts that are not listed and reflected in Table Fourteen displayed little analysis worthy data for the purposes of this study. The markup justifications were so

diversified that the data could not be categorized properly under the above specific markup justifications.

As the various markup justifications themselves were reviewed, it became apparent that the different analysts used different terms to describe the marks that they made for the different terms to describe the marks that they made for the different appropriation accounts. A good example of this was the term 'forward funding' used by an analyst which in reality was 'prior year performance' as mentioned earlier within this chapter. There were similarly non-standardized usage of the reasons and justifications for the marks. As one Office of Budget and Reports (OBR) official stated:

The specific terms used may vary a small bit but the essence of the requirement is non-varying.

Overall, the marks varied greatly between appropriations and the analyst's techniques for review were also as varied. There was no particular methodology utilized by individual budget analysts within the OBR. The analysts used facts, developed facts and passed the facts up to the senior reviewing officials for their increasingly subjective decisions. As indicated by the largely diverse terms used in the marks, the same requirements and ideas were protected but the methods of arriving at them individually continued to differ.

TABLE FOURTEEN

**"TYPES OF MARKUP JUSTIFICATIONS USED BY OBR
BUDGET ANALYSTS FOR MAKING CUTS IN SIX DON
APPROPRIATION ACCOUNTS"**

(Number of Occurrences - Note 1)

| <u>Type of Markup</u> | <u>UPN</u> | <u>SCN</u> | <u>APN</u> | <u>RD&E</u> | <u>OPN</u> | <u>OMN</u> | <u>Total</u> <u>(Note 2)</u> |
|-----------------------------|------------|------------|------------|-----------------|------------|------------|---------------------------------|
| Approval for Production | 25 | 6 | 15 | 7 | 3 | 0 | 53 |
| Unfunded Requirements | 17 | 0 | 0 | 0 | 0 | 0 | 17 |
| Pricing | 6 | 2 | 23 | 3 | 53 | 23 | 115 |
| Program Executability | 24 | 0 | 44 | 15 | 53 | 13 | 155 |
| Congressional Action | 20 | 4 | 22 | 79 | 9 | 0 | 134 |
| Audit Savings | 0 | 0 | 0 | 2 | 0 | 4 | 6 |
| Appropriational Transfer | 0 | 0 | 5 | 13 | 9 | 2 | 29 |
| Prior Year Performance | 11 | 1 | 2 | 3 | 16 | 24 | 52 |
| Other(s) | 1 | 0 | 1 | 13 | 2 | 22 | 39 |
| Totals (Note 3) | 105 | 13 | 113 | 141 | 150 | 98 | 550 |

Notes: 1) Numbers do not reflect the amount (dollar) impact of a particular markup, merely the number of occurrences for each type markup justification.

2) Totals reflect number markup occurrences by 'Type of Markup Justification'

3) Totals reflect number of markup occurrences by 'Appropriation Account'.

In order to view the marks from a decision making perspective, it is necessary to observe where the marks

were made and now they were adjusted. Each of the six appropriation accounts contained in Table Fifteen below had marks made in the ten major areas discussed earlier within this chapter. Trends may be identified by observing the percentages of marks that were taken from the total marks in each appropriation account (remember the downward bias). The percentage of markup justifications are reflected in Table Fifteen below.

MILITARY PERSONNEL. This appropriational category includes the following appropriation actions: Military Personnel-Navy (MPN), Military Personnel-Marine Corps (MPMC), Reserve Personnel-Marine Corps (RPMC). These accounts were not included in the above analysis due to the particularly diverse and varied use of markup justifications and terminology.

PROCUREMENT. This appropriational category includes the following appropriation accounts: Aircraft Procurement-Navy (APN), Shipbuilding & Conversion-Navy (SCN), Weapons Procurement-Navy (WPN), Other Procurement-Navy (OPN) and Procurement-Marine Corps (PMC). The Procurement-Marine Corps (PMC) account was not included in the above analysis due to that particular appropriation account not displaying any regular pattern of markup justification.

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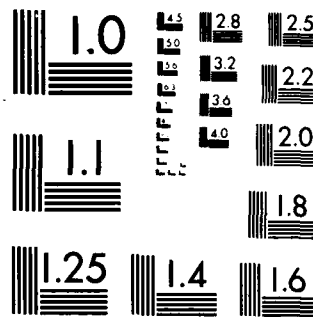
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TABLE FIFTEEN

**"TYPES OF MARKUP JUSTIFICATIONS USED BY OBR
BUDGET ANALYSTS FOR MAKING CUTS IN SIX DON
APPROPRIATION ACCOUNTS"**

(Percentage of Occurrences - Note 1)

| <u>Type of Markup</u> | <u>MPN</u> | <u>SCN</u> | <u>APN</u> | <u>RD&E</u> | <u>OPN</u> | <u>OMN</u> |
|-----------------------------|------------|------------|------------|-----------------|------------|------------|
| Approval for Production | 24.8 | 46.2 | 14.2 | 5.0 | 5.0 | 0 |
| Unfunded Requirements | 16.2 | 0 | 0 | 0 | 0 | 0 |
| Pricing | 5.7 | 15.4 | 20.4 | 2.1 | 33.1 | 23.6 |
| Program Executability | 22.9 | 0 | 33.9 | 11.4 | 39.4 | 16.4 |
| Congressional Action | 19.1 | 30.3 | 19.5 | 56.0 | 5.5 | 0 |
| Audit Savings | 0 | 0 | 0 | 1.4 | 0 | 4.1 |
| Appropriational Transfer | 0 | 0 | 4.4 | 9.2 | 5.6 | 2.0 |
| Prior Year Performance | 10.5 | 7.7 | 1.3 | 5.7 | 10.0 | 24.5 |
| Other(s) | 1.0 | 0 | 0.9 | 9.2 | 1.3 | 22.5 |

Notes: 1) Percentages reflect number of occurrences
by Appropriation account

Within the Weapons Procurement-Navy appropriation account, the most influential markups were due to 'Approval for Production' which accounted for 24.8% of the total adjustments for this account. The second most important markup was due to 'Program Executability' whose influence was 22.9%. The third most influential markup was due to 'Congressional Action' which

compromised 19.1% of the total markups for this account. The fourth major influential markup was due to 'Unfunded requirements' which constituted 16.2% of the total Weapons Procurement-Navy markups.

Within the Shipbuilding & Conversion-Navy appropriation account there were three major markup justifications utilized for reducing (cutting) this account. They were, in descending order of influence, 'Approval for Production', 'Congressional Action', and 'Pricing', whose individual influences were 46.2%, 30.8% and 15.4% respectively.

Within the Aircraft Procurement-Navy appropriation account, the most influential markup was due to 'Program Executability' which constituted 33.9% of the total markups for this account. The next largest influences was due to 'Pricing' at 20.4%, 'Congressional Action' with 19.5% and 'Approval for Production' with 14.2%.

Within the Other Procurement-Navy appropriation account, the most influential markup was 'Program Executability' with 39.4% of the total markups for this appropriation account. 'Program Executability' was followed rather closely by 'Pricing' which constituted 33.1% of the markup justifications.

RESEARCH, DEVELOPMENT, TEST AND EVALUATION. Within the Research, Development, Test and Evaluation appropriation account, 'Congressional Action' was by far the

predominate markup influence with 56.0% of the total markups for this appropriation account. The next highest markup justifications were 'Program Executability' and 'Appropriational Transfer' with a distant 11.4% and 9.2% respectively.

OPERATIONS AND MAINTENANCE. The Operations and Maintenance appropriational category consists of the following appropriation accounts: Operations and Maintenance-Navy (OMN), Operations and Maintenance-Marine Corps (OMMC), Operations and Maintenance-Navy Reserve (OMNR) and Operations and Maintenance-Marine Corps Reserve (OMMCR). The most influential markups for this appropriation category consisted of, in descending order of priority, 'Pricing', 'Prior Year Performance' and 'Program Executability' whose influences were 28.5%, 24.5% and a more distant 13.4% respectively.

By viewing the statistics contained within Table Fifteen above, it can be determined which 'Type of Markup Justification' exercised the most influence upon the budget decisions for the six appropriation accounts reflected within Table Fifteen. For the Department of the Navy (DON) for Fiscal Year 1987, 'Program Executability' accounted for 26.2% of the total markups reviewed. Giving solid credibility to the comments made by Budget Evaluation Group (NCSG) personnel as discussed earlier within this thesis. 'Congressional Action' played a

21.2% influence with 'Pricing' next in order of influence with 13.3%. The remaining markup justifications had lesser influences and effects on the overall budget and, with exception of 'Approval for Production' and 'Prior Year Performance' with 10.0% and 9.8% respectively, were widely distributed.

The three largest and most influential factors in the review and markup process as can be seen from the above data is that the 'Big Three' (program executability, Congressional action and pricing) as discussed throughout this thesis are indeed cornerstones upon which the majority of budget decision actions are based.

Congressional actions played a predominate role within the Research, Development, Test and Evaluation (RDT&E) account and was evident in every procurement account displayed in Table Fifteen with a heavier emphasis in the Aircraft Procurement-Navy and Weapons Procurement-Navy accounts. Obviously the interest exhibited by Congress in these Department of the Navy appropriation accounts indicates a particularly strong desire by that group to 'keep the purse strings' and control the accounts which affect their districts in terms of contractual support.

Because the budget is the ultimate management tool in the federal government, it may also be argued that the Congress, through its use of the monetary

constraints, are the individuals actually making military policy and decisions.

The major decisions being made within the Department of the Navy are presently being made from a 'fiscal or business' decision base vice an 'operational' base created from evaluated threats.

Highlighted within this chapter have been the following issues and concepts pertinent to the budget decision making process within the Office of Budget and Reports (OBR) and the impact of such budget decision making upon the overall Department of the Navy (DON) budget. The budgeting process within the OBR is subject to both subjective and objective influences, with the lower levels being more subjective in their budget decision making orientation. The objective (technical) considerations play a secondary (taken for granted) role beside the subjective (political) considerations during the formulation of the DON budget. The 'Big Three' markup justifications (reductions) consist of, in descending order of occurrence, are as follows: program executability, Congressional action and pricing. Congressional actions plays a predominate influencing role on the research, development, test and evaluation appropriation account and is evident in all procurement accounts, especially aircraft and weapons procurement.

VII. CONCLUSIONS

Due to the limited resources available for utilization by the Department of the Navy, it is becoming more encumbent upon everyone in a resource allocation decision making capacity to think more in economic terms versus operational and hardware requirements and capabilities. Increased emphasis upon reducing the amount of the federal deficit (Gramm-Rudman-Hollings) requires that everyone achieve greater levels of utility with respect to the resources (funding) entrusted to them for defense purposes. Gaining a greater knowledge and appreciation of the role and function of the budget decision making process as it exists within the DON is the first step in the right direction toward achieving the elusive goal of every military official, that of obtaining 'more bang for the (available) buck'. As one Navy budget official related:

The most important endeavor which a Naval officer can pursue, during peacetime, is that of budgeting. The Navy wants is officers to manage, not simply add up numbers.

The 'Budget of the United States', of which the Department of the Navy's budget is subset, is the principal mechanism by which resources are transformed into designed courses of action to achieve the desired and stated defense goals and objectives. The 'budget'

is therefore primarily a management and decision making tool and much more than a simple accounting methodology by which to track the distribution of resources entrusted to the DOD. Budgeteers have been described by a Navy budget official as being somewhat synonymous to a 'fiscal navigator'. In order for a 'fiscal navigator' to keep from running aground on any of the budgeting hazards and shoals described earlier in this thesis, he must possess an accurate knowledge of the framework within which resource allocation (budgetary) decisions are made. If the 'fiscal navigator' is fully aware of the budgeting 'hazards' which must be faced, he can more successfully formulate a resource allocation (budget) plan which not only meets the operational requirements of his command but a budget plan which can be incorporated into the overall Department of the Navy's resource allocation (budget) plan.

Budgeting within the Department of the Navy is nothing more than a specialized form of decision making. Effective budget decision making requires the constant and accurate evaluation of both the political and technical influences within the overall budgeting environment. Instead of describing a budget as a 'zebra' whose colors are either black or white, a budget can be more accurately described as being more attuned to a 'chameleon' whose shade of color reflects the

influences of the environment within which it operates. The technical aspect of Navy budgeting is for all practical purposes taken for granted. The derivation of 'correct' budget numbers serves as the baseline upon which all other budget factors are introduced in order to formulate the 'final' budget numbers.

The following topics are submitted as subject areas for further study and investigation: determining the budgetary impact (role) played by various governmental agencies upon the DON military personnel, procurement, operations and maintenance, and RDT&E appropriation accounts, from the component's initial budget estimates to the budget estimates contained within the President's budget; delineating in more detail the role differences and functions performed by the Director of Budget and Reports (KCB), and also as the Director of the Fiscal Management Division (OP-92) on behalf of the Secretary of the Navy (SECNAV), and the Chief of Naval Operations (CNO); investigating in further detail the impact of any one of the broad (macro) factors which influence the budget decision making within the Department of the Navy; exploring the different perspectives toward budgeting (political versus technical) by budget analysts and budget administrators; and the impact of the 'big three' markup factors upon the Department of the Navy

(D01) procurement and research, development, test and evaluation appropriation accounts.

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